

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements of the Commonwealth of Massachusetts (the Commonwealth) have been prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is the recognized standard-setting body for establishing governmental accounting and financial reporting principles. The significant Commonwealth accounting policies are described below.

### *a. Reporting Entity –*

The state government is comprised of three branches: the Executive Branch, with the Governor as the chief executive officer; the Legislative Branch, consisting of a Senate of 40 members and a House of Representatives of 160 members; and the Judicial Branch made up of the Supreme Judicial Court, the Appeals Court and the Trial Court. In addition, the Legislature has established 56 independent authorities and agencies. Below the level of state government are county governments and 351 cities and towns exercising the functions of local governments. During fiscal year 1998, two counties were abolished and absorbed by the Commonwealth. In fiscal year 1999, three counties will be abolished and absorbed by the state government.

For financial reporting purposes, the Commonwealth has included all funds, organizations, account groups, agencies, boards, commissions and institutions. The Commonwealth has also considered all potential component units for which it is financially accountable as well as other organizations for which the nature and significance of their relationship with the Commonwealth are such that exclusion would cause the Commonwealth's financial statements to be misleading or incomplete. As required by GAAP, these financial statements present the Commonwealth of Massachusetts (the primary government) and its component units. The Commonwealth has included 38 entities as component units in the reporting entity because of the significance of their operational and/or financial relationships with the Commonwealth.

**Blended Component Units** – Blended component units are entities which are legally separate from the Commonwealth, but are so related to the Commonwealth that they are, in substance, the same as the Commonwealth or entities providing services entirely or almost entirely to the Commonwealth. The following Component Units are blended within the Primary Government:

- (1) In the Pension Trust Funds, the Pension Reserves Investment Trust Fund (PRIT) was created in 1984, through General Laws Chapter 661 of the Acts of 1983 as amended by the Acts of 1987. PRIT is the investment portfolio for the assets of member state and local retirement systems. PRIT is managed by the Pension Reserves Investment Management (PRIM) Board. Effective January 1, 1997, the Massachusetts State Teachers' and Employees' Retirement Systems Trust (MASTERS) was merged with PRIT.

In addition, the following entities are blended into the discretely presented university and college and fund type:

- (2) The Massachusetts State College Building Authority provides dormitories, dining commons and other facilities primarily for use by students and staff of certain state colleges of the Commonwealth. The building authority is governed by a board comprised of members appointed by the Governor.
- (3) The University of Massachusetts Building Authority provides dormitories, dining commons and other buildings and structures for the use of the University of Massachusetts and its students and staff; it is governed by a nine-member board appointed by the Governor.
- (4) The University of Massachusetts Medical School Teaching Hospital Trust Fund accumulates the results from operations of the Teaching Hospital. The Board of Trustees of the University of Massachusetts is the governing body of the Teaching Hospital.
- (5) The University of Massachusetts Medical School Group Practice Plan is a trust fund that receives and distributes revenue from medical services to its members. Each member of the clinical faculty of the Medical School is required to be a member of the Group Practice Plan.
- (6) The University of Massachusetts Medical Center Self-Insurance Trust provides professional liability, hospital premises liability and physicians' and surgeons' liability coverage for the Medical Center, the Teaching Hospital and the Group Practice Plan. The Self-Insurance Trust is governed by a 24-member board of which 23 are appointed by the Governor.
- (7) The Worcester City Campus Corporation, doing business as Umass Health System, is a not-for-profit organization for the purpose of supporting the Clinical System of the University of Massachusetts Medical Center by organizing, operating and supporting a health system network. The University

of Massachusetts acting through its Board of Trustees is the sole corporate member of the UMass Health System which is governed by a nine-member board of directors.

- (8) The University of Massachusetts Foundation, Inc. fosters and promotes the growth, progress and general welfare of the University of Massachusetts. It is governed by a twenty-seven member board of directors nominated by the President of the University of Massachusetts and approved by the board. The President, the five campuses Chancellors and the Treasurer of the University are ex-officio members.
- (9) The University of Massachusetts Dartmouth Foundation, Inc. incorporated as a charitable corporation, under Massachusetts General Laws, whose primary purpose is to render financial assistance to educational programs of the University. It is governed by a twenty-five member board nominated and appointed by the board.
- (10) Worcester Foundation for Bio Medical Research, Inc. was organized as a non-profit, independent research institute performing basic biomedical research. On June 27, 1997, the Foundation's Board of Trustees voted to merge the Foundation's research programs with those of the University of Massachusetts-Worcester. On June 30, 1998, the Foundation transferred title to its campus, endowment and other residual assets to various components of the University of Massachusetts systems.

During fiscal year 1998 certain activities of the Clinical Service Division of the University of Massachusetts (which is comprised of the University of Massachusetts Medical School Teaching Hospital Trust Fund, University of Massachusetts Medical School – Group Practice Plan, and the University of Massachusetts Medical Center Self Insurance Trust) and the Worcester City Campus Corporation doing business as UMass Health Systems were contributed to and merged with and into a Massachusetts not-for-profit corporation named UMass-Memorial Medical Center, Inc. UMass-Memorial Medical Center, Inc. is not a component unit of the University of Massachusetts or the Commonwealth.

**Discrete Component Units** – Discrete component units are entities which are legally separate from the Commonwealth, but are financially accountable to the Commonwealth, or whose relationships with the Commonwealth are such that exclusion would cause the Commonwealth's financial statements to be misleading or incomplete. The Component Units column of the

combined financial statements include the financial data of the following entities:

- (1) The Massachusetts Bay Transportation Authority (MBTA) operates mass transit facilities within the Greater Boston metropolitan area, which consists of 78 cities and towns. The MBTA is overseen by a seven-member board of directors of which six are appointed by the Governor. The Commonwealth guarantees the debt of the MBTA and funds deficiencies in the net cost of service.
- (2) The Massachusetts Turnpike Authority (MTA) operates the Massachusetts Turnpike and the Sumner - Callahan - Williams Tunnels. The MTA is governed by three members each appointed by the Governor. The Commonwealth guarantees debt of the MTA. The MTA is legally required to use the calendar year for their fiscal reporting cycle.
- (3) The Regional Transit Authorities (RTAs) provide transportation to areas not serviced by the MBTA. The RTAs are fiscally dependent on the Commonwealth as evidenced from the need for approval by the Secretary of the Executive Office of Transportation and Construction before a RTA can issue bonded debt. In addition, the Commonwealth subsidizes a minimum of 50% of the net cost of service for the RTAs. There are 15 RTAs as follows:
  - Berkshire Regional Transit Authority
  - Brockton Area Transit Authority
  - Cape Ann Transportation Authority
  - Cape Cod Regional Transit Authority
  - Franklin Regional Transit Authority
  - Greater Attleboro/Taunton Regional Authority
  - Greenfield-Montague Transportation Area
  - Lowell Regional Transit Authority
  - Martha's Vineyard Transit Authority
  - Merrimack Valley Regional Transit Authority
  - Montachusett Regional Transit Authority
  - Nantucket Regional Transit Authority
  - Pioneer Valley Transit Authority
  - Southeastern Regional Transit Authority
  - Worcester Regional Transit Authority
- (4) The Massachusetts Water Pollution Abatement Trust (MWPAT) provides a combination of federal and Commonwealth funds for water pollution abatement projects. MWPAT is governed by a three member board of directors that includes the State Treasurer, Commissioner of the Department of Environmental

Protection and the Secretary of the Executive Office for Administration and Finance.

- (5) The Massachusetts Convention Center Authority (MCCA) manages the operation of the John B. Hynes Veterans Memorial Convention Center, the Boston Common Parking Garage and the Springfield Convention Center. The MCCA is governed by a thirteen-member board of directors, which includes nine members appointed by the Governor. The Commonwealth provides grants to fund annual debt service of the bonds issued and subsidies to fund annual operating deficits.

#### ***Economic Development –***

- (6) The Massachusetts Community Development Finance Corporation (MCDFC) provides community development in economically depressed areas in Massachusetts. The MCDFC is governed by a board of directors comprised of nine members including the Secretary of Economic Development, Secretary of Communities and Development, the Secretary for Administration and Finance and six appointments made by the Governor. The Commonwealth owns all of the common stock of the corporation.
- (7) Corporation for Business, Work and Learning (CBWL) provides services that promote business modernization, economic growth and opportunities for gainful and fulfilling employment. MCBWL is governed by a nineteen member board of Directors which includes the Director of Economic Development and the Director of the Department of Labor and Workforce development. The entity is funded with Commonwealth grants.
- (8) The Massachusetts International Trade Council, Inc. (MITC) stimulates export development through export assistance programs and promotion of foreign investment in Massachusetts industries. The entity is funded with Commonwealth grants. The governor appoints the two-member board.
- (9) The Government Land Bank (GLB) aids public and private agencies in the conversion and redevelopment of surplus Commonwealth and federal property, and blighted, decadent or substandard property for the purpose of stimulating economic development and provide housing to low and moderate income persons. The GLB is governed by a board of directors comprised of ten members including the Commissioner of Administration, the Secretary of Communities and Development and eight appointments made by the Governor. The GLB is authorized to issue up to \$50,000,000 of general obligation bonds and the Commonwealth also provides subsidy assistance. The GLB also requires Commonwealth approval to issue bonded debt. Subsequent to June 30, 1998 the Government Land Bank was merged with The Massachusetts Industrial Finance Agency, a related organization, to create a new entity The Massachusetts Development Finance Agency.
- (10) The Massachusetts Technology Park Corporation (MTPC) manages Massachusetts's educational centers that foster economic development within the Commonwealth by providing Massachusetts colleges and universities with access to equipment, machinery and instructional assistance necessary to offer programs in certain emerging areas of science and technology. MTPC is governed by a board of directors comprised of twenty-three members including the Secretary of Economic Affairs, the Secretary for Administration and Finance, the Chancellor of the Board of Regents and twenty appointments made by the Governor. The Commonwealth provides grants to fund operations.
- (11) The Community Economic Development Assistance Corporation (CEDAC) provides development assistance to nonprofit corporations to expand the supply of affordable housing and to foster the revitalization of economically distressed areas. The Governor appoints the nine-member board of directors. The Commonwealth can impose its will on the entity as the Commonwealth approves the loans issued by CEDAC, therefore, controlling the level of services, projects, and activities the entity provides.
- (12) The Massachusetts Corporation for Education Telecommunications (MCET) operates a statewide telecommunication network for the Commonwealth public and private sector to improve the quality of education. MCET is governed by a board of directors comprised of eighteen members of which twelve are appointed by the Governor. The Corporation receives grants from the Commonwealth to fund its programs.
- (13) The Massachusetts Housing Partnership (MHP) addresses local needs for affordable housing and neighborhood development through group effort of the public and private sectors and state and local government. The entity is governed by a seven-member board of directors of which two members are appointed by the Governor, and one member is the Secretary for Administration and Finance and one is the Secretary of Communities and Development. The Commonwealth provides funding to MHP.

(14) The Commonwealth Zoological Corporation manages Franklin Park Zoo and the Walter D. Stone Memorial Zoo. The Corporation's eleven-member board is appointed by the Governor. The Commonwealth subsidizes a substantial portion of the operations of the zoos. Effective June 3, 1997, the Corporation began doing business as Zoo New England.

***Availability of Financial Information for Component Units and Individual Institutions of Higher Education -***

Complete financial statements of the individual component units can be obtained directly from their respective administrative offices.

Discretely presented component units condensed financial statements are included in the component unit column of the general purpose financial statements.

**The following component units were audited by Deloitte & Touche LLP:**

***Discretely Presented:***

Massachusetts Water Pollution Abatement Trust  
Office of the State Treasurer  
One Ashburton Place, 12th Floor  
Boston, MA 02108

***Blended:***

Commonwealth of Massachusetts Employees  
Deferred Compensation Plan  
Office of the State Treasurer  
One Ashburton Place, 12<sup>th</sup> Floor  
Boston, MA 02108

**The following discretely presented component units were audited by auditors other than Deloitte & Touche LLP:**

Berkshire Regional Transit Authority  
67 Downing Industrial Park  
Pittsfield, MA 01201

Brockton Area Transit Authority  
70 School Street  
Brockton, MA 02401

Cape Ann Transportation Authority  
P. O. Box 511  
Gloucester, MA 01931

Cape Cod Regional Transit Authority  
585 Main Street, P. O. Box 2006  
Dennis, MA 02638

Community Economic Development  
Assistance Corporation  
19 Temple Street  
Boston, MA 02111

Commonwealth Zoological Corporation  
1 Franklin Park  
Boston, MA 02121

Corporation for Business, Work and Learning  
The Schrafft Center  
529 Main Street  
Boston, MA 02129

Franklin Regional Transit Authority  
474 Main Street  
Greenfield, MA 01301

Government Land Bank  
C/O Massachusetts Development Finance Agency  
75 Federal Street  
Boston, MA 02110

Greater Attleboro/Taunton Regional Authority  
7 Mill Street  
Attleboro, MA 02703

Greenfield-Montague Transportation Area  
382 Deerfield Street  
Greenfield, MA 01301

Lowell Regional Transit Authority  
145 Thorndike Street  
Lowell, MA 01852

Martha's Vineyard Transit Authority  
P. O. Box 158  
Edgartown, MA 02539

Massachusetts Bay Transportation Authority  
Ten Park Plaza  
Boston, MA 02116

Massachusetts Community Development Finance  
Corporation  
10 Post Office Square, Suite 1090  
Boston, MA 02109

Massachusetts Convention Center Authority  
900 Boylston Street  
Boston, MA 02115

Massachusetts Housing Partnership  
2 Oliver Street  
Boston, MA 02109

Massachusetts International Trade Council, Inc.  
100 Cambridge Street, Room 1302  
Boston, MA 02202

Massachusetts Technology Park Corporation  
75 North Drive  
Westborough, MA 01581

Massachusetts Turnpike Authority  
Ten Park Plaza, Suite 5170  
Boston, MA 02116

Merrimack Valley Regional Transit Authority  
85 Railroad Avenue  
Bradford, MA 01835

Montachusett Regional Transit Authority  
Rear 1427 Water Street  
Fitchburg, MA 01420

Nantucket Regional Transit Authority  
16 Board Street  
Nantucket, MA 02554

Pioneer Valley Transit Authority  
2808 Main Street  
Springfield, MA 01107

Southeastern Regional Transit Authority  
25 North Sixth Avenue  
New Bedford, MA 02740

Worcester Regional Transit Authority  
287 Grove Street  
Worcester, MA 01602

**The following blended component units have been audited by firms other than Deloitte & Touche LLP:**

Included in the University and College Fund Type:

Massachusetts State College Building Authority  
75 Park Plaza, P.O. Box 5  
Boston, MA 02116

University of Massachusetts  
Medical School Group Practice Plan  
100 Venture Way, 2nd Floor  
Hadley, MA 01035

University of Massachusetts Building Authority  
100 Venture Way, 2nd Floor  
Hadley, MA 01035

University of Massachusetts  
Medical School Teaching Hospital Trust Fund  
100 Venture Way, 2nd Floor  
Hadley, MA 01035

University of Massachusetts  
Medical Center Self Insurance Trust  
100 Venture Way, 2nd Floor  
Hadley, MA 01035

University of Massachusetts Dartmouth  
Foundation, Inc.  
Old Westport Road  
North Dartmouth, MA 02747

University of Massachusetts Foundation, Inc.  
One Beacon Street, 26th Floor  
Boston, MA 02108

UMass Health System  
26 Queen Street  
Worcester, MA 01610

Worcester Foundation for Biomedical Research, Inc.  
168 Maple Avenue  
Shrewsbury, MA 01545

**The following investment vehicle of the Pension Trust Fund was audited by a firm other than Deloitte & Touche LLP:**

Pension Reserve Investment Trust Fund  
125 Summer Street, 10th Floor  
Boston, MA 02110

**Higher Education - The following institutions of higher education were audited by firms other than Deloitte & Touche LLP:**

Berkshire Community College  
1350 West Street  
Pittsfield, MA 01201

Bridgewater State College  
131 Grove Street  
Bridgewater, MA 02324

Bristol Community College  
777 Elsbree Street  
Fall River, MA 02720

Fitchburg State College  
160 Pearl Street  
Fitchburg, MA 01420

Framingham State College  
100 State Street  
Framingham, MA 01701

Holyoke Community College  
303 Homestead Avenue  
Holyoke, MA 01040

Massachusetts College of Art  
621 Huntington Avenue  
Boston, MA 02115

Massasoit Community College  
One Massasoit Boulevard  
Brockton, MA 02402

Middlesex Community College  
33 Kearney Square  
Lowell, MA 01852

Mount Wachusett Community College  
444 Green Street  
Gardner, MA 01440

Quinsigamond Community College  
670 West Boylston Street  
Worcester, MA 01606

Springfield Technical Community College  
One Armory Square, P. O. Box 9000  
Springfield, MA 01101

University of Massachusetts  
100 Venture Way, 2nd Floor  
Hadley, MA 01035

Westfield State College  
577 Western Avenue  
Westfield, MA 01086

Worcester State College  
486 Chandler Street  
Worcester, MA 01602

**The following institutions of higher education did not have separate audits performed on their individual financial statements:**

Bunker Hill Community College  
Cape Cod Community College  
Greenfield Community College  
Massachusetts Bay Community College  
Massachusetts College of Liberal Arts  
Massachusetts Maritime Academy  
North Shore Community College  
Northern Essex Community College  
Roxbury Community College  
Salem State College

The following are "related organizations" under GASB No. 14 "The Financial Reporting Entity": Massachusetts Port Authority, Massachusetts Housing Finance Agency, Massachusetts Health and Educational Facilities Authority, Massachusetts Technology Development Corporation and Massachusetts Industrial Finance Agency (MIFA). The Commonwealth is responsible for appointing a voting majority of the members of each entity's board, but the Commonwealth's accountability does not extend beyond the appointments.

**b. Fund Accounting –**

The Commonwealth reports its financial position and results of operations in funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures/expenses. Transactions between funds within a fund type, if any, have not been eliminated.

Account groups are accounting entities used to provide accountability for the Commonwealth's general fixed assets and general long-term obligations. They are not considered funds because they do not report expendable available financial resources and related liabilities.

The Commonwealth has established the following fund categories (further divided by fund types), and account groups:

**Governmental Funds** – account for the general governmental activities of the Commonwealth.

The General Fund is the primary operating fund of the Commonwealth. It is used to account for all governmental transactions, except those required to be accounted for in another fund.

Special Revenue Funds account for specific revenue sources, other than expendable trusts or major capital financing, that have been segregated according to state finance law to support specific governmental activities.

Capital Projects Funds account for financial resources used to acquire or construct major capital assets and to finance local capital projects. These resources are derived primarily from proceeds of general and special obligation bonds and federal reimbursements.

**Proprietary Funds** – include Internal Service Funds which account for the financing of services provided by one department or agency to other departments or agencies, or to other governmental units.

**Fiduciary Funds** – account for assets held by the Commonwealth in a trustee capacity, or as an agent for individuals, private organizations, other governmental units, and/or other funds.

Expendable Trust Funds account for trusts whose principal and income may be expended for their designated purpose.

Nonexpendable Trust Funds account for trusts whose principal cannot be spent.

Pension Trust Funds account for net assets held in trust for the State Employees' and Teachers' Retirement Systems.

Agency Funds account for assets the Commonwealth holds on behalf of others. Agency Funds are custodial in nature and do not involve measurement of operations.

**University and College Funds** – account for the activities specific to the operation of the Commonwealth's public institutions of higher education, including its medical school.

Current Funds are comprised of unrestricted funds which may be used at the discretion of the individual institution's

governing bodies and restricted funds which must be utilized for specific purposes established by others.

Loan Funds account for resources available to make loans to students, faculty and staff.

Endowment and Similar Funds are comparable to trust funds, and they must be administered according to the terms of specific agreements.

Plant Funds account for resources that have been or will be invested to acquire or repair fixed assets or for the related debt service.

**Account Groups** – establish control and accountability over the Commonwealth's general fixed assets and general long-term obligations.

The General Fixed Assets Account Group accounts for general fixed assets of the Commonwealth, excluding the fixed assets of the Proprietary Funds, University and College Fund and the discretely presented Component Units.

The General Long-term Obligations Account Group accounts for long-term bonds and notes issued by the Commonwealth, capital leases, compensated absences, and other long-term obligations, excluding the liabilities of the University and College Fund, the discretely presented Component Units and the Proprietary Service Funds.

**Component Units** – account for the activity of the entities that are separate from the primary government but are financially accountable to the Commonwealth. The Component Units are discretely presented in the general purpose financial statements.

**c. Measurement Focus and Basis of Accounting –**

Governmental and Expendable Trust Funds are accounted for using a flow of current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they become both measurable and available. "Available" means expected to be collected within the current period or soon enough thereafter to be used to pay liabilities of the current period. Significant revenues susceptible to accrual include income, sales and use, corporation and other taxes, federal grants, federal reimbursements and other reimbursements for use of materials and services. Revenues from other financing sources are recognized when received. Expenditures are recorded in the period in which the related fund liability is incurred. Principal and interest on general long-term obligations are recorded as fund liabilities when due.

Proprietary Funds, Nonexpendable Trust and Pension Trust Funds and discretely presented Component Units are reported using a flow of economic resources measurement focus and the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. This measurement focus emphasizes the determination of net income. For all proprietary funds and component units that use proprietary fund accounting, the Commonwealth applies all applicable Financial Accounting Standards Board (FASB) pronouncements issued on or prior to November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

Agency Fund assets and liabilities are reported using the modified accrual basis of accounting. They are custodial in nature and do not measure results of operations or have a measurement focus.

University and College Fund activities are reported using the accrual basis of accounting, except that depreciation is recorded only for those plant fund assets related to the foundations.

**Statutory (Budgetary) Accounting** – The Commonwealth's books and records and other official reports are maintained on the basis of accounting used in the preparation of the Commonwealth's legally adopted annual budget (statutory basis). The statutory basis emphasizes accountability and the budgetary control of appropriations, but is not intended to present the Commonwealth's financial condition and results of operations in conformity with GAAP.

Under the statutory basis, revenues are generally recognized when the cash deposit is received. However, revenues receivable for federal grants and reimbursements are recognized when related expenditures are incurred. Amounts due from certain political subdivisions of the Commonwealth are recognized when considered measurable and available at year end. Deeds excise taxes are recognized at the time of collection by the counties and the Commonwealth.

Statutory expenditures generally are recorded when the related cash disbursement occurs. At year end, payroll is accrued and payables are recognized, to the extent of approved encumbrances, for goods or services received by June 30. Costs incurred under the federally-sponsored Medicaid program, amounts required to settle claims and judgments against the Commonwealth, and certain other liabilities are not recognized until they are encumbered or

otherwise processed for payment. All encumbrances that do not relate to specific payables lapse at year end.

The Commonwealth has separately published its audited "Statutory Basis Financial Report" for the Fiscal Year 1998 dated October 27, 1998.

**d. Cash and Short-Term Investments and Investments -**

The Commonwealth follows the practice of pooling cash and cash equivalents for some of its Governmental and Fiduciary Funds. Cash equivalents consist of short-term investments with an original maturity of three months or less and are stated at cost, which approximates fair value. Interest earned on pooled cash is allocated to the General Fund, Expendable Trust Funds and to certain Special Revenue Funds when so directed by law.

In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, investments are carried at fair value.

The Pension Trust Funds, with investments totaling \$22,656,891,000, at fair value, are permitted to make investments in equity securities, fixed income securities, real estate and other alternative investments. For investments traded in an active market, the fair value of the investment will be its market price. The Pension Trust Funds include investments in real estate, venture capital funds, real estate funds, limited partnerships, futures pools, international hedge pools, commodities pools, balanced pools, leveraged buyouts, private placements and other alternative investments. The structure, risk profile, return potential and marketability differ from traditional equity and fixed income investments. Concentrations of credit risk exist if a number of companies in which the Fund has invested, are engaged in similar activities and have similar economic characteristics that could cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions. To mitigate the exposure to concentrations of risk, the Pension Trust Funds invest in a variety of industries located in diverse geographic areas. As of June 30, 1998, the estimated fair values, determined by management with input from the investment managers, of these real estate and alternative investments were \$1,943,728,000 in the Pension Trust Funds, representing 5.7%, of the total assets of the Fiduciary Fund Type.

Included in the discretely presented Component Units is \$10,113,000 in investments, whose valuation was



determined by management. In making its valuations, management considered the cost of investments, current and past operating results, current economic conditions and their effect on the borrowers, estimated realizable values of collateral, and other factors pertinent to the valuation of investments. There is no public market for most of the investments. Management, in making its evaluation, has in many instances relied on financial data and on estimates by management of the companies they have invested in as to the effect of future developments.

Investments of the University of Massachusetts (UMass) are stated at fair value. Annuity contracts represent guaranteed investment contracts and are carried at present value. Investments of the Commonwealth's Employees Deferred Compensation Plan are carried at fair value.

**e. Securities Lending Program –**

The Pension Trust Funds participate in securities lending programs. Under these programs, the Trusts receive a fee for allowing brokerage firms to borrow certain securities for a predetermined period of time, securing such loans with cash or collateral typically equaling 102% to 105% of the market value of the security borrowed. At June 30, 1998, the market value of the securities on loan from PRIT was approximately \$1,190,000,000. The value of the collateral held by PRIT amounted to \$1,239,000,000 at June 30, 1998. The PRIT trust securities on loan were collateralized at all times by U.S. Treasury securities of at least 100% of the value of the loaned securities. The collateral securities cannot be pledged or sold by PRIT unless the borrower defaults. The securities lending agents indemnify PRIT in the extent that the agents fail to return the securities lent or if the collateral is inadequate to replace the securities lent. PRIT does not believe it has credit risk exposure to the borrower because the amounts PRIT owes the borrower exceeds the amounts the borrower owes PRIT. The securities on loan are included in investments at fair value as of June 30, 1998 in the combined balance sheet.

**f. Receivables –**

Receivables are stated net of estimated allowances for uncollectible accounts. Reimbursements due to the Commonwealth for its expenditures on federally-funded reimbursement and grant programs are reported as "Due from federal government." The receivables in the University and College Fund and Component Units column are amounts that have arisen in the normal course of operations.

**g. Due From Cities and Towns -**

Represents reimbursement due to the Commonwealth for its expenditures on certain programs for the benefit of cities and towns.

**h. Inventories and Other Assets -**

Inventories included in the Governmental Fund Types represent food stamps on hand and are stated at face value.

The costs of materials and supplies are recorded as expenditures in Governmental Funds when purchased. Such inventories are not material in total to the financial statements and therefore are not recorded.

Inventories included within the University and College Fund Type and the Component Unit column are stated at the lower of cost (using the first-in, first-out method), or market (on the purchase or consumption method).

**i. Fixed Assets -**

For Governmental Funds, general fixed asset acquisitions are recorded as expenditures in the acquiring fund and capitalized in the General Fixed Assets Account Group in the year purchased. General fixed assets are recorded at historical cost, or at estimated historical cost if actual historical cost is not available. Donated fixed assets are recorded at the estimated fair market value at the date of the donation.

The cost of normal maintenance and repairs that do not add to the value of the assets or materially extend asset lives are not capitalized. Improvements are capitalized.

The Commonwealth capitalizes all land except land with infrastructure. It capitalizes buildings, equipment, and computer software, with costs in excess of \$15,000 at the date of acquisition and with expected useful lives of greater than one year. Interest incurred during construction is not material and it is not capitalized. Public domain general fixed assets and infrastructure (roads, bridges, tunnels, dams, water and sewer systems, etc.) are not capitalized. No depreciation is provided on general fixed assets.

Fixed assets of the University and College Fund are recorded at cost when purchased or constructed. Major construction projects financed through the issuance of Commonwealth bonds are not recognized as additions to investment in plant until completed. All land and library collections are capitalized. The University of Massachusetts and state colleges capitalize all other fixed

assets with costs in excess of \$1,000. The community colleges capitalize all other fixed assets with costs in excess of \$15,000 consistent with the Commonwealth's fixed asset policy. No provision for depreciation is recognized except for depreciation recorded on the University of Massachusetts Foundation, Inc. and the University of Massachusetts Dartmouth Foundation, Inc. fixed assets, which are recorded on a straight-line basis over the estimated useful lives of the assets.

Fixed assets of the Component Units are capitalized upon purchase and depreciated on a straight-line basis over the estimated useful lives of the assets. Interest incurred during construction is capitalized. The estimated useful lives of fixed assets are as follows:

Structures and improvements.....	3 - 60 years
Equipment, furniture, fixtures and vehicles.....	3 - 25 years

**j. Interfund/Intrafund Transactions -**

During the course of its operations, the Commonwealth records transactions between funds and/or between departments. Transactions of a buyer/seller nature between departments within a fund are not eliminated from the individual fund statements. Receivables and payables resulting from transactions between funds are classified as "Due from other funds" or "Due to other funds" on the balance sheet.

Receivables and payables resulting from transactions between Component Units and the primary government are classified as "Due to/from primary government" or "Due to/from component units."

**k. Fringe Benefit Cost Recovery -**

The Commonwealth appropriates and pays the fringe benefit costs of its employees and retirees through the General Fund. These fringe benefits include the costs of employees' group health insurance, pensions, unemployment compensation and other costs necessary to support the workforce. As directed by Massachusetts General Laws, these costs are assessed to other funds based on payroll costs, net of credits for direct payments. Since fringe benefit costs are not separately appropriated or otherwise provided for in these funds, the required assessment creates an unfavorable budget variance in the budgeted funds. The employees' group health insurance and worker's compensation activity are accounted for through the Internal Service Funds.

**l. School Construction Grants -**

The Commonwealth, through legislation, is committed to reimburse certain cities, towns and regional school districts for a portion of their debt service costs for school

construction and renovation. The amounts expected to be liquidated with available financial resources are reported as expenditures in fund liabilities. The long-term portion of this liability is recorded in the General Long-Term Obligations Account Group.

**m. Compensated Absences -**

For Governmental Funds and Expendable Trust Funds, vested or accumulated vacation and sick leave expected to be liquidated with expendable available financial resources are reported as expenditures and fund liabilities. Amounts that are not expected to be so liquidated are reported in the General Long-Term Obligations Account Group.

Employees are granted vacation and sick leave in varying amounts based on collective bargaining agreements and state laws. Upon retirement, termination or death, certain employees are compensated for unused vacation and sick leave (subject to certain limitations) at their current rate of pay.

In the University and College Funds and the discretely presented Component Units, employees' accumulated vacation and sick leave are recorded as an expense and liability as the benefits accrue.

**n. Lottery Revenue and Prizes -**

Ticket revenues and prizes awarded by the Massachusetts Lottery Commission are recognized as drawings are held. For certain prizes payable in installments, the Commonwealth purchases annuities and principal-only and interest-only treasury strips in the Commonwealth's name, which are recorded as annuity contracts and prizes payable in the Agency Funds. The Commonwealth retains the risk related to such annuities.

**o. Risk Financing -**

The Commonwealth does not insure for employees workers' compensation, casualty, theft, tort claims and other losses. Such losses, including estimates of amounts incurred but not reported, are included as accrued liabilities in the accompanying financial statements when the loss is incurred. For employees workers' compensation, the Commonwealth assumes the full risk of claims filed under a program managed by the Human Resources Division and another program for individuals working on the Central Artery/Tunnel Project managed by the Massachusetts Highway Department. For personal injury or property damages, Massachusetts General Laws limit the risk assumed by the Commonwealth to \$100,000 per occurrence, in most circumstances. The Group Insurance Commission administers health care and other

insurance for the Commonwealth's employees and retirees.

The Internal Service Funds account for workers' compensation and group insurance risk financing activities. The Internal Service Funds revenue are derived from charges to other funds for their proportionate share of expenses.

**p. Fund Balances -**

The Commonwealth reports fund balances as reserved where legally restricted for a specific future use. Otherwise, these balances are considered unreserved.

Fund balances have been reserved as follows:

"Reserved for continuing appropriations" – identifies unexpended amounts in appropriations which the Legislature has specifically authorized to be carried into the next fiscal year.

"Reserved for tax reduction" – identifies the amount set aside according to Section 6 of Chapter 29B of the General Laws and an amount set aside in the Tax Escrow Fund to fund the Fiscal Year 1998 portion of permanent tax reductions authorized by Chapter 175 of the Acts of 1998. The amount can only be used to reduce personal income taxes as provided in the Chapter.

"Reserved for Commonwealth stabilization" – identifies amounts set aside according to Section 5C of Chapter 29 of the General Laws.

"Reserved for employees' pension benefits" – identifies the net assets of the Commonwealth's public employee retirement systems which cannot be used for any other purpose.

"Reserved for unemployment benefits" – identifies amounts reserved for payment of unemployment compensation.

"Reserved for deferred compensation" – identifies amounts held for employees payment of deferred compensation in accordance with Internal Revenue Service Code Section 457.

"Reserved for retirement of indebtedness" – identifies amounts held by fiscal agents to fund future debt service obligations pertaining to Special Obligation Revenue Bonds authorized under Section 20 of Chapter 29 of the Massachusetts General Laws and Chapter 33, Acts of

1991 and Grant Anticipation Notes authorized by Chapter 11 of the Acts of 1997 and Chapter 121 of the Acts of 1998.

"Reserved for nonexpendable trusts" – identifies amounts being held by the Commonwealth on behalf of third parties for which only the interest can be expended.

"Reserved for capital projects" – identifies amounts reserved for capital projects.

**q. Total Columns – Memorandum Only -**

Total columns on the combined financial statements are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. Data in these columns does not present consolidated financial position, results of operations or cash flows. Interfund elimination's have not been made in the aggregation of this data.

**r. Reclassifications -**

For the fiscal year ended June 30, 1998, certain reclassifications have been made to the 1997 balances to conform to the presentation used in 1998. Certain amounts in the separately issued Component Units financial statements has been reclassified to conform to the accounting classifications used by the Commonwealth.

## **2. BUDGETARY CONTROL**

State finance law requires that a balanced budget be approved by the Governor and the Legislature. The Governor presents an annual budget to the Legislature which includes estimates of revenues and other financing sources and recommended expenditures and other financing uses. The Legislature, which has full authority to amend the budget, adopts an expenditure budget by appropriating monies at the individual appropriation account level in an annual appropriations act.

Before signing the appropriation act, the Governor may veto or reduce any specific item, subject to legislative override. Further changes to the budget established in the annual appropriations may be made via supplemental appropriations acts or other legislative acts. These must also be signed by the Governor and are subject to line item veto.

In addition, Massachusetts General Laws authorize the Secretary of Administration and Finance, with the approval of the Governor, upon determination that available revenues will be insufficient to meet authorized expenditures, to withhold allotment of appropriated funds

which effectively reduce the account's expenditure budget.

The majority of the Commonwealth's appropriations are noncontinuing accounts which lapse at the end of each fiscal year. Others are continuing accounts for which the Legislature has authorized that an unspent balance from the prior fiscal year be carried forward and made available for spending in the current fiscal year. In addition, the Legislature may direct that certain revenues be retained and made available for spending within an appropriation account. The allocation of fringe benefits and other costs which are mandated by state finance law are not itemized in the appropriations process or separately budgeted.

The original fiscal year 1998 appropriation act authorized approximately \$17,527,458,000 in direct appropriations and \$838,636,000 in authorizations to retain and expend certain nontax revenues of which \$820,636,000 was estimated to be collected and expended plus \$98,084,000 of interagency chargebacks. The act also included estimates of \$12,815,300,000 in tax revenues and approximately \$5,557,452,000 in nontax revenues. With these revenues (exclusive of chargebacks) projected to total approximately \$18,372,752,000, and with unreserved balances on a statutory basis of approximately \$277,831,000 carried forward from fiscal year 1997, the budget as presented in this original appropriation act was considered to be in balance.

During fiscal year 1998, the Legislature also passed and the Governor signed, with some modification through veto, several supplemental budgetary appropriations. These supplements added approximately \$173,834,000 in direct appropriations and \$28,574,000 in additional retained revenue authorizations.

Subsequent to June 30, 1998, the Legislature passed and the Governor signed, with modification through veto, approximately \$293,475,000 in additional supplemental appropriations, \$62,869,000 in additional retained revenue authorizations and \$122,000 in additional interagency chargebacks. The cumulative fiscal year 1998 appropriations, retained revenue and interagency chargebacks totaled \$19,023,052,000. Appropriations continued from fiscal year 1997 totaled approximately \$180,260,000, and certain interfund transfers, directed by statute, totaled approximately \$1,574,909,000.

Because revenue budgets are not updated subsequent to the original appropriations act, the comparisons of the initial budgeted revenue to the subsequent, and often modified, expenditure budget can be misleading. Also, the financial statements portray fund accounting with gross inflows and outflows, thus creating a second

variance, to separately published budget documents, portraying net inflows and outflows.

Generally, expenditures may not exceed the level of spending authorized for an appropriation account. However, the Commonwealth is statutorily required to pay debt service, regardless of whether such amounts are appropriated. In addition, certain interfund assessments to allocate fringe benefits and other costs which are mandated by state finance law are not itemized in the appropriation process or separately budgeted.

Line item appropriations are enacted for the General Fund and certain Special Revenue Fund activities. For these funds, a Combined Schedule of Revenues, Expenditures and Changes in Fund Balances – Statutory Basis – Budget and Actual - General and Budgeted Special Revenue Funds is included. The Budgeted Special Revenue Funds include the Highway, Local Aid, Environmental, and Other budgeted funds.

The Office of the Comptroller has the responsibility to ensure that budgetary control is maintained on an individual line item appropriation account basis. Budgetary control is exercised through the State accounting system, Massachusetts Management Accounting and Reporting System (MMARS). Encumbrances and expenditures are not allowed to exceed the appropriation account total available spending authorization.

A MMARS report, internally identified as RPT226, is used by management and the Office of the Comptroller to monitor spending against budget. This report provides information at the individual line item appropriation account level, which is the legal level of budgetary control. For financial reporting, the Commonwealth groups these appropriation accounts by character and secretariat to conform to its organizational structure.

A reconciliation of the statutory basis budgeted funds to the GAAP basis General and Special Revenue funds presented in the financial statements is as follows (amounts in thousands):

	General Fund	Special Revenue
Excess of revenues and other financing sources over expenditures and other financing uses (Statutory basis).....	\$ 751,208	\$ 46,872
Entity differences:		
Excess of revenues and other financing sources over expenditures and other financing uses for Non-budgeted Special Revenue Funds.....	-	312,312
Perspective differences:		
Certain activities treated as Special Revenue		
Funds for statutory purposes are accounted for in the General Fund for GAAP.....	683,691	(683,691)
Basis of accounting differences:		
Net change in taxes receivable.....	188,446	125,385
Net change in		
due from federal government.....	(23,405)	(195)
Net change in other		
receivables and other assets.....	205,798	26
Net change in tax refunds		
and abatements payable.....	(185,765)	(120,966)
Net change in accounts		
payable and other liabilities.....	(189,732)	(52,720)
Excess change of revenues and other financing sources over expenditures and other financing uses (GAAP basis).....	\$ 1,430,241	\$ (372,977)

### 3. DEPOSITS AND INVESTMENTS

**Cash and Short-Term Investments** –The Commonwealth maintains a cash and short-term investment pool which is utilized by the Governmental and Fiduciary Fund types.

#### **Primary Government -**

As of June 30, 1998, the carrying amount of the Primary Government's total cash and cash equivalents was \$611,864,000 and the corresponding bank balance was \$603,540,000. Bank deposits in the amount of \$282,354,000 were insured by the Federal Deposit Insurance Corporation, \$120,408,000 were collateralized in the name of the Commonwealth, and \$200,778,000 were uninsured and uncollateralized.

#### **Component Units -**

As of June 30, 1998, the carrying amount of the discretely presented Component Unit's total cash and cash equivalents was \$608,432,000, and the corresponding bank balances were \$612,585,000. Bank deposits of \$144,451,000 were insured by the Federal Deposit Insurance Corporation, \$8,822,000 were collateralized in the name of the respective component units, and \$459,312,000 were uninsured and uncollateralized.

**Investments** – During the fiscal year, the Commonwealth implemented GASB No. 31, which requires certain investments to be recorded at fair value. Implementation of this standard had no material effect on the financial statements. The Commonwealth maintains an investment pool, the Massachusetts Municipal Depository Trust (MMDT), that is available for use by all funds. The deposits and investments of the Component Units and the University and College Funds and the investments of the Pension Trust Funds are held separately from those of other Commonwealth funds, with the exception of their investments in MMDT.

Statutes authorize the Primary Government to invest in obligations of the U.S. Treasury, authorized bonds of all states, banker's acceptances, certificates of deposit, commercial paper rated within the three highest classifications established by Standard & Poor's Corporation and Moody's Commercial Paper Record and repurchase agreements that any of these obligations secure. The Pension Trust Funds are permitted to make investments in equity securities, fixed income securities, real estate and other alternative investments. In the following table, these alternative investments, venture capital and futures pools are classified as other investments. The investment policies of the Component Units are the same as the Primary Government's, except that they permit investment in equity securities.

Short-term investments and investments are classified as to collateral risk into the following three categories:

Category 1: Insured or registered, or securities held by the Commonwealth or its agent in the Commonwealth's name.

Category 2: Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the Commonwealth's name.

Category 3: Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in the Commonwealth's name.

**Primary Government** – Investments of the Primary Government at June 30, 1998, are as follows (amounts in thousands):

	Category 1	Category 2	Category 3	Total
<u>Investment</u>				
Repurchase agreements.....	\$ 1,177,539	\$ -	\$ 6,115	\$ 1,183,654
U.S. Treasury obligations.....	1,230,897	5,649	141,585	1,378,131
Commercial paper.....	2,804,273	-	-	2,804,273
Government obligations.....	1,893,393	23,222	78,565	1,995,180
Equity securities.....	15,510,608	-	27,026	15,537,634
Fixed income securities.....	3,045,856	-	133,869	3,179,725
Asset backed investments.....	676	-	-	676
Notes.....	149,884	-	-	149,884
Other.....	186,669	4,934	2,136	193,739
	<u>\$ 25,999,795</u>	<u>\$ 33,805</u>	<u>\$ 389,296</u>	26,422,896
Money market investments.....				1,090,624
Mutual fund investments.....				43,719
Deferred compensation plan mutual funds.....				2,006,455
Annuity contracts.....				1,340,514
Eurodollar contracts.....				8,654
Real estate.....				947,329
Assets held in trust.....				1,918,109
Deposits with U.S. Treasury.....				1,699,693
Certificate of deposits.....				6,039
Other.....				998,477
Total.....				<u>\$ 36,482,509</u>

Following is a reconciliation of investments as summarized above to the balance as recorded in the combined balance sheet (amounts in thousands):

Investments as summarized above.....	\$ 36,482,509
Less:	
Short-term investments reported in the combined balance sheet as cash and short-term investments.....	5,327,884
Restrictive investments reported separately in the combined balance sheet.....	273,705
Deferred compensation plan mutual funds reported separately in the combined balance sheet.....	2,006,455
Assets held in trust reported separately in the combined balance sheet.....	1,918,109
Annuity contracts reported separately in the combined balance sheet.....	1,340,514
Deposits reported separately in the combined balance sheet.....	1,831,890
Investments as reported on the combined balance sheet.....	<u>\$ 23,783,952</u>

Following is a reconciliation of the balance of cash and short-term investments at June 30, 1998 (amounts in thousands):

Carrying amount of cash and cash equivalents.....	\$ 611,864
Cash with fiscal agent.....	(37,631)
Short-term investments.....	<u>5,327,884</u>
Cash and short-term investments as reported on the combined balance sheet.....	<u>\$ 5,902,117</u>

**Financial Investments with Off-Balance Sheet Risk** –

Certain investments of the Commonwealth may involve a degree of risk not accounted for on the respective financial statements. A description of such “off-balance sheet risks” is as follows.

**Forward Currency Contracts** – The Pension Trust Funds enter into forward currency contracts to hedge the exposure to changes in foreign currency exchange rates on foreign portfolio holdings. The market value of the

contract will fluctuate with changes in currency exchange rates.

The contract is marked-to-market daily and the change in market value is recorded by the fund as an unrealized gain or loss by the Pension Trust Fund.

When the contract is closed, the Pension Trust Funds record a realized gain or loss equal to the difference between the value of the contract at the time it was opened and the value at the time it was closed. The maximum potential loss from such contract is the aggregate face value in U.S. dollars at the time the contract was opened.

**Futures Contracts** – The Pension Trust Funds may purchase and sell financial futures contracts to hedge against changes in the values of securities the fund owes or expects to purchase. Upon entering such contracts, they must pledge to the broker an amount of cash or securities equal to the minimum “initial margin” requirements of the futures.

The potential risk is that the change in the value of futures contracts primarily corresponds with the value of underlying instruments which may not correspond to the change in value of the hedged instruments. In addition, there is a risk that PRIT may not be able to close out its

futures positions due to a nonliquid secondary market. Risks may arise from the potential inability of a counterparty to meet the terms of a contract and from unanticipated movements in the value of a foreign currency relative to the U.S. dollar. The Pension Trust Funds may also invest in financial futures contracts for nonhedging purposes.

Payments are made or received by the Pension Trust Funds each day, depending on the daily fluctuations in the value of the underlying security, and are recorded as unrealized gains or losses. When the contracts are closed, the Pension Trust Funds recognize a realized gain or loss. The notional value of the futures contracts at June 30, 1998 for the Pension Trust Funds amount to approximately \$270,032,000 with unrealized gain of approximately \$2,363,000.

**Options** – PRIT is also engaged in selling or “writing” options. The Pension Trust Funds, as writers of options, may have no control over whether the underlying securities may be sold (call) or purchased (put) and, as a result, bears the market risk of an unfavorable change in the price of the security underlying the written option. As of June 30, 1998, there were no material options outstanding.

**Component Units** – Investments of the discretely presented Component Units at June 30, 1998 are as follows (amounts in thousands):

	Category 1	Category 2	Category 3	Total
<u>Investment</u>				
Repurchase agreements.....	\$ 25,459	\$ -	2,457	\$ 27,916
U.S. Treasury obligations.....	2,939	-	-	2,939
Commercial paper.....	223,453	33,947	-	257,400
Government obligations.....	114,292	1,244,176	25,326	1,383,794
Equity securities.....	-	-	1,044	1,044
Notes.....	15,110	-	6,856	21,966
Other.....	18,819	114,588	5,084	138,491
	<u>\$ 400,072</u>	<u>\$ 1,392,711</u>	<u>\$ 40,767</u>	<u>1,833,550</u>
Money market investments.....				174
Mutual fund investments.....				125
Deferred compensation plan mutual funds.....				26,430
Assets held in trust.....				5,251
Guaranteed investment contracts.....				438,380
Certificate of deposits.....				6,522
Total.....				<u>\$ 2,310,432</u>

Following is a reconciliation of investments summarized above to the balance as recorded in the combined balance sheet (amounts in thousands):

Investments as summarized above.....	\$ 2,310,432
Less:	
Short-term investments reported in the combined balance sheet as cash and short-term investments.....	355,215
Restricted investments reported separately in the combined balance sheet.....	1,489,023
Deferred compensation plan mutual funds reported separately in the combined balance sheet.....	26,430
Assets held in trust reported separately in the combined balance sheet.....	5,251
Investments as reported in the combined balance sheet....	<u>\$ 434,513</u>

Following is a reconciliation of the balance of cash and short-term investments at June 30, 1998 (amounts in thousands):

Carrying amount of cash and cash equivalents.....	\$ 608,432
Short-term investments reported as investments for GASB 3 disclosure purposes but reported in the combined balance sheet as cash and short-term investments.....	<u>355,215</u>
Cash and short-term investments as reported in the combined balance sheet.....	<u>\$ 963,647</u>

#### 4. RECEIVABLES

Taxes, federal reimbursements, loans and other receivables are presented in the various funds as follows (amounts in thousands):

##### Primary Government –

	<u>Taxes</u>	<u>Due from Federal Government</u>	<u>Loans</u>	<u>Other</u>	<u>Allowance for Uncollectibles</u>	<u>Net Receivable</u>
General Fund.....	\$ 1,190,967	\$ 430,009	\$ -	\$ 672,174	\$ (771,559)	\$ 1,521,591
Special Revenue Funds.....	831,820	340,544	-	121,569	(164,141)	1,129,792
Capital Projects Funds.....	-	4,475	-	236	(114)	4,597
Trust and Agency Funds... University and College Fund.....	326,697 - -	3,991 18,441 -	643 56,251 -	1,017,066 271,363 -	(543,432) (32,216) -	804,965 313,839 -
Subtotal.....	2,349,484	797,460	56,894	2,082,408	<u>\$(1,511,462)</u>	3,774,784
Less allowance for uncollectibles .....	<u>(436,967)</u>	<u>(5,415)</u>	<u>(7,084)</u>	<u>(1,061,996)</u>		
Net receivable.....	<u>\$ 1,912,517</u>	<u>\$ 792,045</u>	<u>\$ 49,810</u>	<u>\$ 1,020,412</u>		<u>\$ 3,774,784</u>

##### Component Units –

	<u>Due from Federal Government</u>	<u>Loans</u>	<u>Other</u>	<u>Allowance for Uncollectibles</u>	<u>Net Receivable</u>
MBTA.....	\$ -	\$ -	\$ 45,202	\$ -	\$ 45,202
MTA.....	-	-	6,774	-	6,774
Regional Transit Authorities.....	8,676	-	7,031	(25)	15,682
MWPAT.....	32,430	940,594	18,276	-	991,300
MCCA.....	-	-	1,151	(55)	1,096
Economic Development.....	12,238	215,031	18,180	(8,381)	237,068
Subtotal.....	53,344	1,155,625	96,614	<u>\$(8,461)</u>	1,297,122
Less allowance for uncollectibles ...	<u>-</u>	<u>(8,292)</u>	<u>(169)</u>		
Net receivable.....	<u>\$ 53,344</u>	<u>\$ 1,147,333</u>	<u>\$ 96,445</u>		<u>\$ 1,297,122</u>



**5. RECEIVABLES AND PAYABLES BETWEEN FUNDS AND COMPONENT UNITS**

Receivables and payables between funds and component units reflected as due to/from primary government/component units in the combined balance sheet at June 30, 1998 are summarized as follows (amounts in thousands):

<i>Primary Government:</i>			<i>Component Units:</i>		
	<u>Due from</u>	<u>Due to</u>		<u>Due from</u>	<u>Due to</u>
General Fund:			General Fund:		
Special Revenue Funds:			MBTA.....	\$ -	\$ 4,542
Federal Grants.....	\$ 26,573	\$ -	RTAs.....	-	35,299
Local Aid.....	1,770,509	-	MCCA.....	-	20,820
Environmental.....	15,065	-	Economic Development Authorities.....	3,750	803
Universal Health Care.....	18,300	-	Subtotal.....	3,750	61,464
Capital Projects Funds:			Special Revenue Funds:		
General.....	-	88,082	MBTA.....	-	241,971
Capital Investment Trust.....	-	153,519	RTAs.....	-	26,496
Boston Convention and Exhibition.....	19,000	-	Economic Development Authorities.....	-	1,000
Capital Improvement & Investment Trust	-	139,236	Subtotal.....	-	269,467
Capital Expenditure Reserve.....	-	2	Capital Projects Funds:		
Highway.....	497,486	-	Economic Development Authorities.....	-	502
Federal Highway.....	-	39,372	Subtotal.....	-	502
Local Aid.....	25,545	-	MBTA:		
Other.....	2,868	-	General Fund.....	4,542	-
Trust and Agency Funds:			Special Revenue Funds:		
Pension Trust.....	1,672	-	Highway.....	80,657	-
University and College Fund:			Local Aid.....	161,314	-
Current - Unrestricted.....	6,328	-	Subtotal.....	246,513	-
Subtotal.....	2,383,346	420,211	RTAs:		
Special Revenue Funds:			General Fund.....	35,299	-
General Fund.....	-	1,830,447	Special Revenue Funds:		
Special Revenue Funds:			Highway.....	8,832	-
Highway.....	338	-	Local Aid.....	17,664	-
Other.....	-	103,124	Subtotal.....	61,795	-
Subtotal.....	338	1,933,571	MCCA:		
Capital Projects Funds:			General Fund.....	20,820	-
General Fund.....	420,211	544,899	Subtotal.....	20,820	-
Special Revenue Funds:			Economic Development Authorities:		
Other.....	102,786	-	General Fund.....	803	3,750
Subtotal.....	522,997	544,899	Special Revenue Funds:		
Internal Service Funds:			Other.....	1,000	-
University and College Funds:			Capital Projects Funds:		
Current - unrestricted.....	22,289	-	General.....	502	-
Subtotal.....	22,289	-	Subtotal.....	2,305	3,750
Fiduciary Funds:			Total Component Units.....	\$ 335,183	\$ 335,183
General Fund.....	-	1,672	MTA:		
Subtotal.....	-	1,672	Capital Projects Funds:		
University and College Fund:			Capital Expenditure Reserve (1).....		100,000
General Fund.....	-	6,328			\$ 435,183
Internal Services Funds:					
Employees Workers' Compensation.....	-	22,289			
University and College Fund:					
Current - unrestricted.....	32,217	51,254			
Current - restricted.....	37,252	243			
Loan.....	9	-			
Endowment.....	-	15,037			
Plant.....	9,502	12,446			
Subtotal.....	78,980	107,597			
Total Primary Government.....	\$ 3,007,950	\$ 3,007,950			

(1) Difference of \$100 million between Primary Government and Component Units is due to MTA fiscal year ending December 31, 1997.

**6. FIXED ASSETS****Primary Government-**

**General Fixed Asset Account Group** – Changes in general fixed assets by category at June 30, 1998 are as follows (amounts in thousands):

	Balance at July 1, 1997	Additions	Retirements	Balance at June 30, 1998
Land.....	\$ 522,017	\$ 20,637	\$ 43	\$ 542,611
Buildings.....	2,374,450	40,106	12,400	2,402,156
Machinery and equipment.....	511,226	137,796	70,124	578,898
Construction in progress.....	98,178	51,884	-	150,062
Total.....	<u>\$3,505,871</u>	<u>\$ 250,423</u>	<u>\$ 82,567</u>	<u>\$ 3,673,727</u>

**University and College Fund Type** – Fixed assets consist of the following at June 30, 1998 (amounts in thousands):

	Amount
Land.....	\$ 52,728
Buildings.....	1,756,040
Machinery and equipment.....	569,418
Construction in progress.....	8,375
	<u>2,386,561</u>
Less accumulated depreciation.....	(2,624)
Total.....	<u>\$ 2,383,937</u>

**Component Units** – Fixed assets consist of the following at June 30, 1998 (amounts in thousands):

	Amount
Land and improvements.....	\$ 353,090
Infrastructure.....	1,341,236
Structures and improvements.....	6,170,105
Equipment, furniture, fixtures and vehicles....	1,927,528
Total.....	9,791,959
Less accumulated depreciation.....	(2,425,829)
Net fixed assets.....	7,366,130
Construction in progress.....	518,024
Total.....	<u>\$ 7,884,154</u>

**7. SHORT-TERM FINANCING AND CREDIT AGREEMENTS****Primary Government -**

The Massachusetts General Laws authorize the Treasurer to issue temporary notes in anticipation of revenue or bond financing. When this short-term debt does not meet long-term refinancing criteria, it is classified among fund liabilities.

**General Fund** – The Commonwealth is authorized by General Laws to issue short-term notes to finance working capital advances to the MBTA. The Commonwealth retires these notes through subsequent appropriations and assessments to cities and towns. There were no such notes outstanding at June 30, 1998.

The balance of revenue anticipation notes (RANs) fluctuates during the fiscal year but must be reduced to zero at June 30. During fiscal year 1998, there were no RANs issued or outstanding.

**Capital Projects Funds** – The Commonwealth may issue bond anticipation notes (BANs) to temporarily finance its capital projects, but it must reduce the balance to \$200,000,000 at June 30. During fiscal year 1998, there were no BANs issued or outstanding.

**Letter-of-Credit Agreements** – During fiscal year 1998, the Commonwealth maintained letter-of-credit agreements with several banks in order to provide credit and liquidity support for its commercial paper program. The letters of credit were available to secure up to \$400,000,000 of Commonwealth commercial paper plus interest thereon. Advances were available, subject to certain limitations and bearing interest at the bank rate as defined, in anticipation of revenue or bond proceeds and repayable by the following June 30, subject to extension in certain circumstances, at the Commonwealth's option. No such advances were drawn during fiscal year ended 1998, or subsequent thereto.

One \$200,000,000 letter of credit expired on September 1, 1998. The remaining agreements expire on October 31, 2000. The average costs are approximately 0.07 % on unutilized amounts and approximately 0.10% on utilized amounts.

**Line-of-Credit Agreement** – During fiscal year 1998, the Commonwealth maintained a line of credit with a bank to provide liquidity support for up to \$200,000,000 of commercial paper notes. The line of credit had a term through September 30, 1999 but was optionally

terminated on November 4, 1997. The average costs of all lines of credit are approximately 0.55% on unutilized amounts and approximately 0.08% on utilized amounts.

### ***Component Units -***

MBTA short-term notes payable outstanding at June 30, 1998 totaled \$325,000,000. Of this amount, \$160,000,000 is due September 4, 1998 with an interest rate of 4.50% and \$165,000,000 will mature on February 26, 1999 with an interest rate of 4.25%.

The MBTA also issued commercial paper to act as financing for capital expenditures. At June 30, 1998, \$116,500,000 of this commercial paper was outstanding.

Subsequent to June 30, 1998, the MBTA issued \$160,000,000 of notes carrying an interest rate of 4.25%. The notes mature on September 3, 1999.

The Massachusetts Technology Park Corporation had a \$2,700,000 short-term note payable outstanding at June 30, 1998. The note has an interest rate of 3.90% and matures on July 31, 1998.

The Commonwealth Zoological Corporation had \$300,000 of short-term notes payable outstanding at June 30, 1998. The notes have an interest rate of 8.50%.

The RTAs had \$72,250,000 of short-term notes payable outstanding at June 30, 1998. All notes mature during fiscal year 1999 and have interest rates ranging from 3.69% to 4.95%.

Subsequent to June 30, 1998, the RTAs rolled over \$38,202,000 of revenue anticipation notes with interest rates ranging from 3.69% to 4.00% due in fiscal year 1999.

## **8. LONG-TERM DEBT**

Under the Constitution of the Commonwealth of Massachusetts, the Commonwealth may borrow money (a) for defense, (b) in anticipation of receipts from taxes or other financing sources, any such loan to be paid out of the revenue of the year in which the loan is made, or (c) by a two-thirds vote of the members of each house of the Legislature present and voting thereon. The Constitution further provides that borrowed money shall not be expended for any other purpose than that for which it was borrowed or for the reduction or discharge of the principal of the loan. In addition, the Commonwealth may give,

loan or pledge its credit by a two-thirds vote of the members of each house of the Legislature present and voting thereon, but such credit may not in any manner be given or loaned in aid of any individual, private association, or corporation which is privately owned or managed.

The Commonwealth has waived its sovereign immunity and consented to be sued on contractual obligations, including bonds and notes issued by it and all claims with respect thereto. However, the property of the Commonwealth is not subject to attachment or levy to pay a judgment, and the satisfaction of any judgment generally requires legislative appropriation. Enforcement of a claim for the payment of principal or interest on bonds and notes of the Commonwealth may also be subject to the provisions of federal or Commonwealth statutes, if any, enacted to extend the time for payment or impose other constraints upon enforcement.

As of June 30, 1998, the Commonwealth had three types of long-term debt outstanding: general obligation bonds, special obligation bonds and grant anticipation notes. The general obligation bonds are authorized and issued primarily to provide funds for Commonwealth-owned capital projects and local government improvements. They are backed by the full faith and credit of the Commonwealth and paid from the Governmental Funds, in which debt service principal and interest payments are appropriated. Massachusetts General Laws provide for the allocation of bond proceeds to these authorizations in arrears as expenditures are made, unless the proceeds are allocated at the time of issuance.

Some Commonwealth general obligation debt is issued as college opportunity bonds (COBs) as authorized by the General Laws. Such bonds were issued in fiscal years 1996, 1997 and 1998 in initial amounts totaling \$64,900,000 with maturities ranging from 2000 through 2017. COBs have an accreting interest component payable at maturity. The annual accretion rate of each COBs maturity is a variable rate equal to the change in annual Consumer Price Index (CPI) plus 2.0%. Assuming the CPI averages 3.5% during the life of the outstanding COBs, the payments due at maturities of the COBs will total \$113,900,000. In addition, COBs pay current interest in the amount of 0.5% per year of the initial amount still outstanding. These bonds are backed by the full faith and credit of the Commonwealth.

Chapter 48 of the Acts of 1997 abolished the former Middlesex County. As part of that legislation, the Commonwealth assumed outstanding debt of the County. This debt of \$1,525,000 at June 30, 1998 is considered a general obligation of the Commonwealth.

The Commonwealth also issues special obligation revenue bonds as authorized by the General Laws. Such bonds may be secured by all or a portion of revenues credited to the Highway Fund and are not general obligations of the Commonwealth. At June 30, 1998, the Commonwealth had outstanding \$606,005,000 of such special obligation bonds, secured by a pledge of 6.86 cents of the 21 cents per gallon motor fuel excise tax imposed on gasoline.

The Commonwealth also issues Federal Highway Grant Anticipation Notes (GANS) to finance current cash flow for the Central Artery/Tunnel Project in anticipation of future federal reimbursements. Sections 9 through 10D of Chapter 11 of the Acts of 1997, as amended by Chapter 121 of the Acts of 1998, authorize the Commonwealth to sell up to \$1,500,000,000 in GANS. All Federal Highway Construction reimbursements and reimbursements from the Federal Highway Construction Trust Funds are pledged to the repayment of the GANS. Up to \$900,000,000 of said notes may be paid off through the issuance of authorized general obligation bonds of the Commonwealth in the event federal financial assistance is not available. At June 30, 1998, the Commonwealth has \$600,000,000 of GANS outstanding with maturity dates ranging from 2005 to 2015. These notes are secured by the pledge of Federal Highway Construction reimbursements without a general obligation pledge.

During fiscal year 1991, dedicated income tax bonds were issued as authorized by Chapter 151, Acts of 1990 to finance the combined net undesignated fund deficit in the General and Local Aid Funds at June 30, 1990. These bonds were designated as the Fiscal Recovery Loan Act of 1990, and they were secured by the pledge of certain dedicated income tax revenues and the investment earnings thereon, as well as the full faith and credit of the Commonwealth. These bonds were paid in full in December 1997.

For financial reporting purposes, long-term debt is carried at its face value, which includes discount and any issuance costs financed. The outstanding amount represents the total principal to be repaid. For capital appreciation bonds, the outstanding amount represents total principal and interest to be repaid. When short-term debt has been refinanced on a long-term basis, it is reported as outstanding at its face amount.

The amount of long-term debt authorized but unissued is measured in accordance with Commonwealth statutes. Only the net proceeds of bonds (exclusive of discount and costs of issuance) are deducted from the total authorized by the Legislature.

General obligation and special obligation long-term bonds outstanding, grant anticipation notes (including discount and issuance costs), and debt authorized-unissued at June 30, 1998 are as follows (amounts in thousands):

Purpose	Outstanding Amounts	Maturities	Authorized - Unissued
GANS.....	\$ 600,000	2005-2015	\$ 919,443
Capital Projects:			
General.....	5,115,887	1998-2025	4,384,620
Highway.....	3,786,968	1998-2018	5,682,830
Local Aid.....	1,516,885	1998-2017	513,155
Other.....	58,863	1998-2025	816,690
	<u>10,478,603</u>		<u>11,397,295</u>
Total.....	<u>\$ 11,078,603</u>		<u>\$ 12,316,738</u>

Interest rates on the Commonwealth's debt outstanding at June 30, 1998 ranged from 0.10% to 14.10%.

Changes in long-term debt outstanding (including discount and issuance costs) and bonds authorized-unissued for the year ended June 30, 1998, are as follows (amounts in thousands):

	Bonds Outstanding	Authorized - Unissued
Balance, July 1, 1997.....	\$ 10,271,294	\$ 11,954,142
General and special obligation bonds:		
Principal, less discount and issuance costs.....	867,013	(867,013)
Discount and issuance costs.....	20,948	-
County debt:		
Principal of bonds assumed.....	1,680	-
Grant Anticipation Notes:		
Principal, less discount and issuance costs.....	580,557	(580,557)
Discount and issuance costs.....	19,443	-
General obligation refunding bonds:		
Principal of bonds issued.....	647,120	-
Refunded bonds.....	(626,385)	-
Special obligation refunding bonds:		
Special obligation principal of bonds issued.....	191,080	-
Special obligation refunded bonds...	(186,880)	-
Increase in bonds authorized.....	-	2,268,342
Contributions in lieu of bonds.....	-	(223,157)
Bonds retired.....	(707,267)	-
Expiration of authorizations.....	-	(235,019)
Balance, June 30, 1998.....	<u>\$ 11,078,603</u>	<u>\$ 12,316,738</u>

At June 30, 1998, debt service requirements to maturity for principal (including discount, capital appreciation and

issuance costs) and interest are as follows (amounts in thousands):

Fiscal year ending June 30,	Principal	Interest	Total
1999.....	\$ 658,027	\$ 534,209	\$ 1,192,236
2000.....	643,019	496,211	1,139,230
2001.....	686,880	462,923	1,149,803
2002.....	651,976	428,700	1,080,676
2003.....	665,566	399,458	1,065,024
2004 and thereafter...	7,773,135	2,370,290	10,143,425
Total.....	<u>\$ 11,078,603</u>	<u>\$ 4,691,791</u>	<u>\$ 15,770,394</u>

The Commonwealth issued bonds and notes under negotiated contracts and under competitive bidding contracts during fiscal year 1998. The costs for legal counsel and underwriting fees under competitive bond sale costs were estimated at \$102,000 and \$1,314,000, respectively. Negotiated legal fees and underwriter fees were estimated at \$501,000 and \$8,232,000, respectively. In addition, the Commonwealth paid \$70,000 for disclosure counsel services.

**Advance Refunding and Defeased Bonds** - As authorized by the Massachusetts General Laws, the Commonwealth advance refunded certain general obligation bonds through the issuance of \$375,840,000 of general obligation refunding bonds during fiscal year 1998 with interest rates ranging from 4.5% to 5.8% and \$271,280,000 of general obligation refunding bonds with variable interest rates. In addition, the Commonwealth issued \$294,695,000 in special obligation bonds with interest rates ranging from 3.8% to 5.5%, which included \$191,080,000 in special obligation refunding bonds and \$103,615,000 in new-issue special obligation bonds. Proceeds totaling approximately \$861,793,000, including bond premiums, were used to purchase U. S. Government securities which were deposited in irrevocable trusts with an escrow agent to provide for all future debt service payments of the refunded bonds. As a result, the refunded bonds are considered to be defeased, and the liabilities, therefore, have been removed from the General Long-Term Obligations Account Group. As a result of these advance refundings, the Commonwealth decreased current year debt service payments and has taken advantage of lower interest rates, and it has decreased its aggregate debt service payments by approximately \$51,400,000 over the next 20 years and will experience an economic gain (the difference between the present values of the debt service payments of the refunded and refunding bonds) of approximately \$35,800,000. At June 30, 1998, approximately \$813,265,000 of the bonds refunded remain outstanding and are considered defeased.

As part of its refunding activity during fiscal year 1998, the Commonwealth issued \$271,280,000 of general obligation variable rate demand bonds. The variable rate for those bonds is determined weekly based on the activity of a remarketing agent, and interest is paid monthly. In connection with issuance of the variable rate demand bonds, the Commonwealth has entered into interest rate exchange ("swap") agreements with certain counterparties. These agreements require the counterparties to pay the Commonwealth an amount equal to the variable rate payable on the bonds, and in return, the Commonwealth pays a fixed rate. Only the net difference in interest payments is actually exchanged with the counterparty. The bond principal is not exchanged. The Commonwealth continues to pay interest to the bondholders at the variable rate provided by the bonds.

Through these agreements, the Commonwealth has effectively fixed its interest payment obligations relative to the variable rate bonds at a rate equal to 4.8%, including the costs of the liquidity facility and remarketing (the debt service requirements to maturity for these bonds presented in this note are based on that fixed rate). The Commonwealth will be exposed to a variable rate if the counterparties to the swap default or if the swap is terminated. A termination of the swap agreement may also result in the Commonwealth making or receiving a termination payment.

The variable rate bonds are supported by a stand-by bond purchase liquidity facility with a commercial bank, which requires that the bank purchase any bonds that are not successfully remarketed and tendered. Until and unless remarketed, the Commonwealth would be required to pay the bank interest on such bonds at a rate equal to the bank's prime interest rate. In addition, the Commonwealth would be required to repay the principal amount of any such bonds in equal quarterly installments over the remainder of the term of the stand-by bond purchase agreement. As of June 30, 1998, the stand-by bond purchase facility has not been used. The stand-by bond purchase agreement has a stated expiration date of August 11, 2004 but may be renewed or extended by mutual consent of the Commonwealth and the bank. In connection with the agreement, the Commonwealth pays a fee equal to 0.10% per year of the principal amount of variable rate bonds outstanding.

In prior years, the Commonwealth also defeased certain general obligation and other bonds by placing the proceeds of refunding bonds in irrevocable trusts to provide for all future debt service payments on the

refunded bonds. Accordingly, the trust account assets and the liabilities for the defeased bonds are not included in the financial statements. At June 30, 1998, approximately \$3,273,769,000 of bonds outstanding from advance refundings in prior fiscal years is considered defeased.

Subsequent to June 30, 1998, the Commonwealth issued \$17,683,000 in college opportunity bonds with variable interest rates and \$500,000,000 in general obligation bonds with interest rates ranging from 4.40% to 5.25%.

In addition, in September 1998, the Commonwealth issued additional variable rate refunding bonds in the amount of \$499,520,000. These bonds are structured similar to those issued in fiscal year 1998, including the use of interest rate swap agreements, obligations with respect to the bonds, and the use of a stand-by bond purchase liquidity facility with an expiration date of September 17, 2003. Through these agreements, the Commonwealth has effectively fixed its interest payment obligations relative to the variable rate bonds at a rate equal to 4.3% including the costs of the liquidity facility and remarketing.

**Statutory Debt Limit** – The Massachusetts General Laws establish limits on the amount of direct debt outstanding. By statutorily limiting the Commonwealth's ability to issue direct debt, this limit provides a control on annual capital spending. The direct debt limit for fiscal year 1998 was \$9,568,282,874. Outstanding debt subject to the limit at June 30, 1998 was \$9,047,467,000. The limit increases 5.0% per year.

For purposes of determining compliance with the limit, outstanding direct debt is defined to include general obligation bonds and minibonds at the amount of their original net proceeds. It excludes bond anticipation notes

and discount and issuance costs, if any, financed by these bonds. It also excludes special obligation bonds, grant anticipation notes, refunded bonds, and certain refunding bonds and debt issued by counties.

The amounts excluded from the limited are as follows (amounts in thousands):

	Debt Outstanding
Balance, June 30, 1998.....	\$ 11,078,603
Less amounts excluded:	
Discount and issuance cost.....	(702,014)
Chapter 5 of Acts of 1992 refunding.....	(144,509)
Special obligation principal.....	(602,531)
GANS principal.....	(580,557)
County debt assumed.....	(1,525)
Outstanding direct debt.....	<u>\$ 9,047,467</u>

**General Long-Term Debt Obligations Account Group** –

The Commonwealth records its liability for long-term bonds in the General Long-term Obligations Account Group. Other general long-term obligations recognized by the Commonwealth are its obligations under capital lease agreements (Note 12), school construction grants to partially reimburse cities and towns for their debt service payments on bonds issued to finance construction of local or regional schools, compensated absences, claims judgments, and lottery prizes payable (Note 1). These liabilities will be liquidated in the future from governmental funds. During the year ended June 30, 1998, the following changes occurred in liabilities reported in the General Long-term Obligations Account Group (amounts in thousands):

	Balance July 1, 1997	Bond Issuances	Bond Discount	Bond Principal Retirement	Other Net Increase (Decrease)	Balance June 30, 1998
Long-term bonds.....	\$ 10,271,294	\$ 2,287,450	\$ 40,391	\$ (1,520,532)	\$ -	\$ 11,078,603
Capital leases.....	87,171	-	-	-	4,468	91,639
School construction grants.....	3,534,617	-	-	-	662,020	4,196,637
Compensated absences.....	106,402	-	-	-	9,464	115,866
Claims, judgments, and other.....	76,532	-	-	-	(479)	76,053
Lottery prizes payable.....	3,566	-	-	-	7,058	10,624
Total.....	<u>\$ 14,079,582</u>	<u>\$ 2,287,450</u>	<u>\$ 40,391</u>	<u>\$ (1,520,532)</u>	<u>\$ 682,531</u>	<u>\$ 15,569,422</u>

**University and College Fund** – Building authorities related to the University of Massachusetts and the state colleges have issued bonds for construction of higher education facilities and equipment. Such bonds are guaranteed by the Commonwealth in an aggregate amount not to exceed \$182,000,000. The bond agreements generally provide that revenues from student fees are pledged as collateral on the bonds and establish bond reserve funds, bond funds, and maintenance reserve funds. The University of Massachusetts and state colleges have also entered into various loan agreements as participants in the Massachusetts Health and Educational Facilities Authority's (MHEFA) ongoing capital asset program to finance construction projects and equipment.

University and College Fund long-term debt outstanding at June 30, 1998 was as follows (amounts in thousands):

<u>Purpose</u>	<u>Interest Rates</u>	<u>Amount</u>	<u>Maturity Dates</u>
MHEFA capital asset program.	Variable	\$ 33,801	1998-2023
Building authorities and state colleges.....	3.0%-12.0%	<u>228,847</u>	1998-2024
		<u>\$ 262,648</u>	

Maturities of principal are as follows (amounts in thousands):

<u>Fiscal Years Ending June 30,</u>	<u>Amount</u>
1999.....	\$ 30,314
2000.....	12,117
2001.....	13,101
2002.....	13,808
2003 .....	14,368
2004 and thereafter.....	<u>178,940</u>
Total.....	<u>\$ 262,648</u>

Changes in bonds outstanding reported in the University and College Fund Type are as follows (amounts in thousands):

	<u>Amount</u>
Balance, July 1, 1997 .....	\$ 316,739
Principal, less issuance and discount cost.....	1,646
Bonds retired, net of amortization of discount.....	(10,173)
Debt transferred to UMass	
Memorial Health Care, Inc.....	<u>(45,564)</u>
Balance, June 30, 1998.....	<u>\$ 262,648</u>

**Component Units** – Bonds and notes outstanding at June 30, 1998 (December 31, 1997 for Massachusetts Turnpike Authority), net of unamortized discount of \$152,972,000 and unamortized deferred loss on refunding of \$158,917,000, are as follows (amounts in thousands):

<u>Purpose</u>	<u>Interest Rate %</u>	<u>Amount</u>	<u>Maturity Dates</u>
MBTA:			
General transportation system.....	3.84% - 7.57%	\$ 3,005,948	2005 - 2027
Boston Metropolitan District.....	4.55 - 7.04	38,992	2002 - 2025
MTA:			
Revenue serial bonds.....	5.00 - 5.65	1,657,781	1999 - 2037
Guaranteed bond.....	5.00	55,905	1999
MCCA:			
Current interest serial bonds.....	4.00 - 6.00	57,564	1998 - 2008
Compound interest serial bonds.....	5.375 - 6.80	58,190	2000 - 2013
MWPAT:			
Serial bonds.....	2.00 - 6.25	714,650	1998 - 2017
Term bonds.....	5.25 - 6.375	110,725	2013 - 2015
Economic Development:			
Notes payable.....	2.80 - 11.00	<u>109,064</u>	1998 - 2011
Total.....		<u>\$ 5,808,819</u>	

The amounts below represent the face amounts of bonds and notes outstanding and may differ from the amounts included in the combined balance sheet due to treatment of original issue discount in the general purpose financial statements. Maturities of principal are as follows (amounts in thousands):

<u>Years Ending</u>	<u>MBTA</u>	<u>MTA</u>	<u>MWPAT</u>	<u>MCCA</u>	<u>Economic Development</u>	<u>Total</u>
1999.....	\$ 94,509	\$ -	\$ 35,880	\$ 21,375	\$ 21,225	\$ 172,989
2000.....	106,317	65,450	37,900	22,670	17,545	249,882
2001.....	110,556	11,095	39,570	14,234	17,983	193,438
2002.....	112,674	11,635	41,040	11,054	17,212	193,615
2003.....	120,831	12,295	42,395	8,399	10,186	194,106
2004 and thereafter.....	2,704,835	1,719,813	628,590	38,527	24,913	5,116,678
Total.....	<u>\$3,249,722</u>	<u>\$ 1,820,288</u>	<u>\$ 825,375</u>	<u>\$ 116,259</u>	<u>\$ 109,064</u>	<u>\$6,120,708</u>

During the fiscal year ended June 30, 1998 (December 31, 1997 for Massachusetts Turnpike Authority) the following changes occurred in bonds and notes payable reported in the Component Units (amounts in thousands):

	<u>MBTA</u>	<u>MTA</u>	<u>MWPAT</u>	<u>MCCA</u>	<u>Economic Development</u>	<u>Total</u>
Balance, July 1, 1997.....	\$ 2,923,504	\$ 604,186	\$ 863,020	\$ 135,910	\$ 107,094	\$ 4,633,714
Principal, less discount issuance costs.....	723,407	1,669,540	-	-	27,444	2,420,391
Debt retired, net of amortization of discount.....	(599,659)	(4,131)	(37,645)	(20,156)	(25,474)	(687,065)
Deferred loss on refunding.....	(2,312)	(555,909)	-	-	-	(558,221)
Balance, June 30, 1998.....	<u>\$ 3,044,940</u>	<u>\$ 1,713,686</u>	<u>\$ 825,375</u>	<u>\$ 115,754</u>	<u>\$ 109,064</u>	<u>\$ 5,808,819</u>

The MBTA issued certificates of participation in the amounts of \$28,565,000 on December 15, 1988 and \$85,795,000 on August 30, 1990 to finance the purchase of commuter rail coaches. Under the terms of the applicable agreements, the MBTA's obligation to make the annual payments on the certificates is subject to the Commonwealth's appropriation of necessary funds in its annual budget. The certificates bear interest at rates ranging from 7.30% to 7.80% and mature as follows (amounts in thousands):

<u>Year Ending June 30,</u>	<u>Amount</u>
1999.....	\$ 1,150
2000.....	1,150
2001.....	1,150
2002.....	1,140
2003.....	1,140
2004 and thereafter.....	3,410
Total.....	<u>\$ 9,140</u>

In prior years, the MBTA defeased in-substance several General Transportation System Bonds by placing the proceeds of new bonds in an irrevocable trust fund to provide for future debt service payments on the old debt. These payments began in 1995. Accordingly, the trust account asset and the liability for the defeased bonds are not included in the accompanying financial statements. On June 30, 1998, \$1,760,250,000 of these bonds outstanding are considered defeased.

Subsequent to June 30, 1998, the MBTA issued \$460,240,000 in general obligation bonds with interest rates ranging from 4.00% to 5.75%.

The legislation under which the MBTA was established provides that if, at any time, the MBTA is unable to meet any interest or principal payments due on its debt, sufficient funds will be remitted by the Commonwealth to meet such obligations.

On January 15, 1996, the Massachusetts Turnpike Authority issued \$259,315,000 of Guaranteed Bond



Anticipation Notes to finance the \$100,000,000 payment for the acquisition of the Ted Williams Tunnel, as well as to advance refund outstanding MIFA Tunnel Revenue Bonds, in order to finance a portion of the cost of certain repairs and improvements to the Sumner and Callahan Tunnels and to fund certain start-up costs associated with opening and operating the Ted Williams Tunnel. The notes are unconditionally guaranteed by the Commonwealth. The notes mature on June 1, 1999 and are anticipated to be repaid by the Authority with the proceeds from bonds secured by the revenues of the Sumner, Callahan and Williams Tunnels to be issued in the future.

In January 1996, approximately \$56,573,000 of the net proceeds from the issuance of Guaranteed Bond Anticipation Notes was used to purchase U.S. Government securities which were deposited in an irrevocable trust with an escrow agent to provide all future debt service payments on refunded bonds. As a result, the refunded bonds were considered to be defeased and the liability has been removed from the balance sheet. At December 31, 1997, approximately \$43,800,000 of the refunded bonds remains outstanding.

During the year ended December 31, 1997, the MTA issued \$1,764,383,000 in special obligation bonds with interest rates ranging from 5.00% to 5.65%. The bonds included \$297,520,000 of Western Turnpike revenue bonds and \$1,466,863,000 of Metropolitan Highway System revenue bonds. These bonds are the obligations of the MTA. The Commonwealth is not obligated to make payments on the bonds, nor are the bonds pledged by the faith or credit of the Commonwealth.

On February 22, 1995, Pioneer Valley Transit Authority (PVTa) issued certificates of participation of \$9,930,000 to finance the purchase of buses. Under the terms of the agreement, PVTa is obligated to make annual payments on the certificates subject to the Commonwealth appropriating the necessary funds in the Authority's annual budget.

The certificates bear interest rates ranging from 5.0% to 5.7% and mature as follows (amounts in thousands):

<u>Year Ending June 30,</u>	<u>Amount</u>
1999.....	\$ 1,234
2000.....	1,234
2001.....	1,234
2002.....	1,234
2003.....	1,235
Total.....	<u>\$ 6,171</u>

## 9. INDIVIDUAL FUND DEFICITS

Certain funds within the Governmental Fund Type and Proprietary Fund Type have fund deficits at June 30, 1998 as follows (amounts in thousands):

<u>Fund</u>	<u>Amount</u>
Special Revenue:	
Local Aid.....	\$ 2,010,176
Environmental.....	15,303
Lotteries.....	1,205
Capital Projects:	
Boston Convention and Exhibition Center.....	19,000
Highway.....	631,280
Federal Highway Construction.....	28
Local Aid.....	37,567
Other.....	14,933
Internal Service Funds:	
Employees Workers' Compensation.....	248,877
Employees Group Health Insurance .....	28,170

The Local Aid Fund has incurred a deficit primarily due to increased state funding for support of local communities for education and transportation. The revenues allocated to this fund have not been sufficient to support the increased spending. The Commonwealth will budget in future years the allocation of revenue to support the increased spending authority.

The special revenue fund deficits will be funded through future revenues and/or transferred from other funds.

In the Capital Projects Funds, deficits reflect the time lag between capital expenditures and the receipt or allocation of proceeds from the sale of related bonds. Subsequent to June 30, 1998, the Commonwealth issued \$17,683,000 in college opportunity bonds and \$500,000,000 in general obligation bonds to finance the deficits.

The deficit in the Internal Service Fund reflects the accruals for workers' compensation and group insurance claims of \$315,867,000. Funding of these deficits is dependent upon legislation actions to develop an actuarial funding plan.

## 10. RETIREMENT SYSTEMS

### *Primary Government –*

The Commonwealth is statutorily responsible for the pension benefits for Commonwealth employees (members of the State Employees' Retirement System) and for teachers of the cities, towns, regional school districts throughout the Commonwealth and Quincy College

(members of the Teachers' Retirement System, except for teachers in the Boston public schools, who are members of the State-Boston Retirement System but whose pensions are also the responsibility of the Commonwealth).

The members of the retirement systems do not participate in the Social Security System. The Commonwealth has also assumed responsibility for payment of cost-of-living adjustments (COLA) for the separate (non-teacher) retirement systems of its cities, towns and counties, in fiscal year 1997 and prior fiscal years. The Commonwealth is statutorily required to have an actuarial valuation once every three years and every two years on a GAAP basis.

Certain Commonwealth employees and current retirees employed prior to the establishment of the State Employees' Retirement System are covered on a "pay-as-you-go" basis.

#### **Plan Descriptions –**

**State Employees' Retirement System (SERS)** is a single-employer defined benefit public employee retirement system (PERS) covering substantially all employees of the Commonwealth and certain employees of the independent authorities and agencies including the state police officers at the Massachusetts Port Authority and the Massachusetts Turnpike Authority. The SERS is administered by the Commonwealth and is part of the reporting entity and does not issue a stand-alone financial report.

**Teachers' Retirement System (TRS)** is an agent multiple-employer defined benefit PERS. The Commonwealth is a non-employer contributor and is responsible for all contributions and future benefit requirements of the TRS. The TRS covers certified teachers in cities (except the City of Boston), towns, regional school districts and Quincy College. The TRS is administered by the Commonwealth and is part of the reporting entity and does not issue a stand-alone financial report.

**State – Boston Retirement System (SBRS)** is a hybrid multiple-employer defined benefit PERS. SBRS provides pension benefits to all full-time employees upon commencement of employment with any of the various government agencies covered by SBRS. The Commonwealth is a non-employer contributor and is only responsible for the actual cost of pension benefits for SBRS participants who serve in the City of Boston's School Department in a teaching capacity. The cost of pension benefits of the other participants is the

responsibility of the City of Boston. SBRS is not administered by the Commonwealth and is not part of the reporting entity and a stand-alone financial report is not available.

The policy for postretirement benefit increases for all retirees of the SERS, TRS, SBRS and COLA are subject to legislative approval.

**Membership** – Membership in SERS, TRS and SBRS as of January 1, 1998 is as follows:

	<u>SERS</u>	<u>TRS</u>	<u>SBRS</u>
Retirees and beneficiaries			
currently receiving benefits.....	43,144	30,499	2,742
Terminated employees entitled to			
benefits but not yet receiving them.....	2,073	1,850	96
Subtotal.....	45,217	32,349	2,838
Current employees:			
Vested.....	48,035	50,477	4,181
Non-vested.....	34,596	24,422	1,269
Subtotal.....	82,631	74,899	5,450
Total.....	127,848	107,248	8,288

During fiscal year 1998, the Commonwealth abolished Franklin and Middlesex Counties, transferring their functions, assets, debts and obligations to the Commonwealth. The SERS actuarial accrued liability includes former county employees who were transferred to the Commonwealth.

**Benefit Provisions** – Massachusetts General Laws establish uniform benefit and contribution requirements for all contributory PERS. These requirements provide for retirement allowance benefits up to a maximum of 80% of a member's highest three-year average annual rate of regular compensation. Benefit payments are based upon a member's age, length of creditable service, and group classification. The authority for amending these provisions is with the legislature.

Retirement allowance consists of two parts: an annuity and a pension. A member's accumulated total deductions and a portion of interest they generate constitute the annuity. The differential between the total retirement benefit and the annuity is the pension. The average retirement benefit is approximately 80-85% pension and 15-20% annuity.

Members become vested after ten years of creditable service. A superannuating retirement allowance may be received upon the completion of twenty years of service or upon reaching the age of 55 with ten years of service.

Normal retirement for most employees occurs at age 65; for certain hazardous duty and public safety positions, normal retirement is at age 55.

**Funding Progress** - The SERS, TRS and SBRS actuarial determined contributions were computed as part of the actuarial valuation as of January 1, 1998. The Commonwealth has revised three actuarial assumptions used in the calculation of contribution requirements and Unfunded Actuarial Liability (UAL). First, the assumed rate of return on investments of present and future assets was changed from 8.5% to 8.25% per year, resulting in a \$641,000,000 increase in the UAL. Second, the use of an updated mortality table resulted in a \$1,100,000,000 increase in the UAL. Third, a change from using the

market value of assets to an actuarial value of assets had the effect in this valuation of reporting assets at 97% of the market value. This third change results in a \$643,000,000 increase in UAL. Other significant assumptions used are (a) projected salary increases of 6% per year, (b) cost of living (inflation rate) increases of 3% per year on the first \$12,000 of the retiree's total allowance, and (c) interest rate credited to the annuity savings fund of 5.5% per year. These calculations use a level dollar amortization method over 20 years closed period.

The following table presents the schedule of funding progress as presented in the five most recent actuarial valuations at the date indicated (amounts in thousands):

Actuarial Valuation as of January 1,	Actuarial Value of Plan Assets	Actuarial Accrued Liability	Unfunded Actuarial Liability (UAL)	Funded Ratio %	Annual Covered Payroll *	UAL as a % of Covered Payroll
State Employers Retirement System						
1998**	\$ 9,914,000	\$ 11,361,000	\$ 1,447,000	87.3 %	\$ 3,111,000	46.5 %
1996	7,366,000	9,441,000	2,075,000	78.0	2,989,000	69.4
1995	5,879,000	8,602,000	2,723,000	68.3	2,992,000	91.0
1993	5,071,000	8,738,000	3,667,000	58.0	2,919,000	125.6
1992	4,699,000	7,303,000	2,604,000	64.3	2,638,000	98.7
Teachers Retirement System						
1998**	10,170,000	13,095,000	2,925,000	77.7	3,175,000	92.1
1996	7,553,000	10,252,000	2,699,000	73.7	2,810,000	96.0
1995	6,014,000	9,712,000	3,698,000	61.9	2,667,000	138.7
1993	5,142,000	8,921,000	3,779,000	57.6	2,428,000	155.6
1992	4,784,000	8,706,000	3,922,000	55.0	2,032,000	193.0
State - Boston Retirement System						
1998**	699,000	1,219,000	520,000	57.3	285,000	182.5
1996	549,000	1,025,000	476,000	53.6	274,000	173.7
1995	438,000	833,000	395,000	52.6	232,000	170.3
1993	370,000	743,000	373,000	49.8	206,000	181.1
1992	342,000	759,000	417,000	45.1	184,000	226.6

\* - The covered payroll amounts approximate the employer payroll.

\*\* - Revised actuarial assumptions

In addition to these system liabilities, the Commonwealth had assumed financial responsibility for the COLA granted to participants in the 104 retirement systems of cities, towns and counties in fiscal year 1997 and prior fiscal years. Chapter 17 of the Acts of 1997 effective for fiscal year 1998 transferred the responsibility for funding COLAs for separate (non-teacher) retirement systems of cities and towns to the respective system. Any future COLA granted to employees of these plans will be the responsibility of the individual system. The individual

employer governments are also responsible for the basic pension benefits. The retirement systems are not administered by the Commonwealth and are not part of the reporting entity. The actuarial liability for COLA as of January 1, 1998 was \$912,029,000.

**Contributions Required and Contributions Made** - The retirement systems' funding policies have been established by Chapter 32 of the General Laws. The legislature has the authority to amend these policies. The annuity portion

of the SERS, TRS and SBRS retirement allowance is funded by employees, who contribute a percentage of their regular compensation – 5% for those hired before January 1, 1975 7% for those hired from January 1, 1975, through December 31, 1983, and 8% for those hired on or after January 1, 1984, plus an additional 2% of compensation above \$30,000 per year for those hired on or after January 1, 1979. Regular employees and state police hired after June 30, 1996 are required to contribute 9% and 12%, respectively, of their compensation plus an additional 2% of compensation above \$30,000 per year. Costs of administering the plan are funded out of plan assets.

The Commonwealth's contribution for the pension benefit portion of the retirement allowance of SERS and TRS and required payments to cover SBRS and COLA contributions were originally established on a "pay-as-you-go" basis. As a result, amounts were appropriated each year to pay current benefits, without a systematic provision to fully fund future liabilities already incurred. Beginning in fiscal year 1988, the Commonwealth enacted the Pension Reform Act of 1987 and addressed the unfunded liability of SERS, TRS and its participation in SBRS and its COLA obligation. Chapter 32, Section 22C of General Laws enacted in 1998 calls for the payment of normal cost plus an amortization payment of UAL such that the UAL is reduced to zero by June 30, 2018.

This legislation also directs the Secretary for Administration and Finance to prepare a funding schedule to meet these requirements, and to update this funding schedule every three years on the basis of new actuarial valuation reports prepared under the Secretary's direction. Any such schedule is subject to legislative approval. If a

schedule is not so approved, payments are to be made in accordance with the most recently approved schedule. This legislation further provides that if the pension benefits paid exceed the scheduled contribution, the Commonwealth's contribution shall equal these benefit payments through fiscal 1997. All subsequent contributions will be made in accordance with the funding schedule.

The current legislatively approved funding schedule, based on the January 1, 1996 valuation, was adopted by the Legislature as part of the fiscal year 1998 budget process. Under the current schedule the amortization payments are designed to eliminate the unfunded liability by fiscal year 2017. It required contributions by the Commonwealth of \$1,045,570,000 during the fiscal year ended June 30, 1998. Of this amount, \$127,155,000 was payments for COLA granted to participants in 104 retirement systems of cities, towns, and counties.

GAAP requires that pension expenditures (costs) be based on an acceptable actuarial cost method and that they be not less than:

- Normal cost and amortization cost
- Interest and amortization on any unfunded prior service costs

The funding schedule discussed above follows an acceptable actuarial funding methodology to compute normal cost and the unfunded accrued actuarial liability.

The following table presents the schedule of employer contributions (amounts in thousands):

Actuarial Valuation as of January 1,	Annual Required Contribution (ARC)	Interest on NPO	Amortization of NPO	Pension Cost	Actual Contribution Made	Net Pension (Obligation) Asset (NPO)	% of ARC Contributed	% of Pension Cost Contributed
<b>State Employers Retirement System</b>								
1998	\$ 261,255	\$ (83,446)	\$ 77,180	\$ 254,989	\$ 494,289	\$ 1,250,766	189 %	194 %
1997	246,037	(65,478)	41,889	222,448	463,590	1,011,466	188	208
1996	232,158	(46,918)	29,523	214,763	433,114	770,324	187	202
1995	249,640	(31,639)	19,614	237,615	417,361	551,973	167	176
1994	266,564	(18,448)	9,152	257,268	398,900	372,227	150	155
1993	243,587	(5,539)	2,694	240,742	402,100	230,595	165	167
1992	252,687	136	(65)	252,758	323,700	69,237	128	128
1991	282,682	2,335	(1,094)	283,923	311,400	(1,705)	110	110
1990	259,102	4,569	(2,103)	261,568	289,500	(29,182)	112	111
1989	298,800	2,160	(977)	299,983	269,866	(57,114)	90	90
1988	279,582	-	-	279,582	252,585	(26,997)	90	90
<b>Teachers Retirement System</b>								
1998	315,474	(59,126)	54,686	311,034	446,619	852,267	142	144
1997	245,426	(44,832)	28,681	229,275	418,519	716,682	171	183
1996	232,403	(30,311)	19,073	221,165	392,003	527,439	169	177
1995	277,343	(24,002)	14,880	268,221	342,441	356,601	123	128
1994	247,460	(15,975)	7,925	239,410	322,100	282,381	130	135
1993	225,838	(9,946)	4,837	220,729	296,100	199,691	131	134
1992	223,041	(4,996)	2,384	220,429	282,300	124,320	127	128
1991	249,436	(3,452)	1,617	247,601	266,900	62,449	107	108
1990	227,270	(1,459)	671	226,482	251,400	43,150	111	111
1989	249,108	(1,595)	722	248,235	246,531	18,232	99	99
1988	232,661	-	-	232,661	252,597	19,936	109	109
<b>State-Boston Retirement System</b>								
1998	48,795	(2,114)	1,995	48,636	35,000	11,983	72	72
1997	34,621	(2,082)	1,332	33,871	35,000	25,619	101	103
1996	32,908	(1,860)	1,171	32,219	34,822	24,490	106	108
1995	28,168	(1,816)	1,126	27,478	28,000	21,887	99	102
1994	22,448	(1,216)	603	21,835	28,000	21,365	125	128
1993	20,463	(650)	316	20,129	27,200	15,200	133	135
1992	26,530	(634)	303	26,199	26,400	8,129	100	101
1991	23,149	(413)	193	22,929	25,700	7,928	111	112
1990	21,118	(251)	116	20,983	23,000	5,157	109	110
1989	21,744	(127)	58	21,675	23,225	3,140	107	107
1988	20,315	-	-	20,315	21,905	1,590	108	108

The total contributions required for SERS, TRS and SBRS are based on the entry age normal cost method using the same actuarial assumptions used to compute the net pension obligation. During the year ended June 30, 1998, the Commonwealth's pension expenditure included payments totaling \$19,310,000 to current retirees employed prior to the establishment of the current plans and the non-contributory plans.

**Post-retirement Health Care and Life Insurance Benefits** – In addition to providing pension benefits, under Chapter 32A of the General Laws, the Commonwealth is required to provide certain health care and life insurance benefits for retired employees of the Commonwealth, housing authorities, redevelopment authorities, and certain other governmental agencies. Substantially all of the Commonwealth's employees may become eligible for these benefits if they reach retirement

age while working for the Commonwealth. Eligible retirees are required to contribute a specified percentage of the health care benefit costs which is comparable to contributions required from employees. The Commonwealth is reimbursed for the cost of benefits to retirees of the eligible authorities and non-state agencies. The Commonwealth recognizes its share of the costs of providing these benefits when paid. These payments totaled approximately \$173,047,000 for the fiscal year ended June 30, 1998. There are approximately 44,600 participants eligible to receive benefits at June 30, 1998.

## 11. DEFERRED COMPENSATION PLAN

The Commonwealth offers its employees a deferred compensation plan created in accordance with Internal Revenue Code (IRC) Section 457. The plan, available to all employees of the Commonwealth and its political

subdivisions, permits them to defer a portion of their salaries until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights are (until paid or made available to the employee or other beneficiary) solely the property and rights of the employee. Participants' rights under the plan are equal to the fair value of the deferred account for each participant. All plan assets are stated at fair value. It is the opinion of the Commonwealth that it has no liability for losses under the plan, but it does have the duty of due care which would be required of an ordinary prudent investor.

During fiscal year 1998, the Commonwealth amended its Plan-Trust Declaration such that the plan's assets are held in trust, and reported as an expendable trust fund, for the exclusive benefit of participants and their beneficiaries. The deferred compensation trust fund uses the calendar year for its fiscal reporting cycle. Certain amounts recorded as agency activity in the discretely presented components are held in trust by the Commonwealth.

The Treasurer and Receiver General of the Commonwealth of Massachusetts is the plan trustee. He is statutorily given authority, on behalf of the Commonwealth, to contract with state employees to defer a portion of those employees' compensation, and for the purposes of funding a deferred compensation program for the said employees to invest the deferred portion of the employees' income.

In connection with amending the Plan-Trust Declaration, the Commonwealth adopted Government Accounting Standards Board Statement No. 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*. The Commonwealth has eliminated the plan assets and related liabilities from its Agency Fund which amounted to \$1,837,892,000 at June 30, 1997 and increased its beginning fund balance in the deferred compensation trust fund by \$1,616,593,000.

## 12. LEASES

### *Primary Government –*

In order to finance the acquisition of equipment, the Commonwealth has entered into various lease/purchase agreements, including tax-exempt lease/purchase (TELP) agreements which are accounted for as capital leases. These agreements are for various terms and contain clauses indicating that their continuation is subject to appropriation by the Legislature. For fiscal year ended

June 30, 1998, capital lease/purchase expenditures totaled approximately \$58,261,000.

At June 30, 1998, the Commonwealth's aggregate outstanding liability under capital leases, the present value of the net minimum lease payments, totals \$91,639,000. This liability is reported in the General Long-term Obligations Account Group. Equipment acquired under capital leases is included in the General Fixed Assets Account Group.

The Commonwealth leases real property and equipment under numerous operating lease agreements with varying terms. These agreements contain provisions indicating that their continuation is subject to appropriation by the Legislature. Rental expenditures for the fiscal year ended June 30, 1998 were approximately \$105,396,000.

The following is a schedule of future minimum payments under non-cancelable leases for the Commonwealth as of June 30, 1998 (amounts in thousands):

<u>Years Ending June 30,</u>	<u>Capital Leases</u>	<u>Operating Leases</u>
1999.....	\$ 36,203	\$ 76,063
2000.....	25,003	54,821
2001.....	17,829	38,911
2002.....	12,535	28,861
2003.....	7,519	12,175
2004 and thereafter.....	11,367	29,215
Total payments.....	110,456	<u>\$240,046</u>
Less amount representing interest.....	(18,817)	
Present value of minimum lease payments...	<u>\$ 91,639</u>	

**University and College Fund** – At June 30, 1998, aggregate outstanding liability under capital leases, the present value of the net minimum lease payments, totaled \$70,202,000. Equipment acquired under capital leases is included in University and College Fund fixed assets.

The University and College Fund Type leases real property and equipment under numerous operating lease agreements for varying terms. Rental expenditure for the fiscal year ended June 30, 1998 was approximately \$9,067,000.

The following schedule summarizes future minimum payments under non-cancelable leases for the University and College Fund Type (amounts in thousands):

<u>Years Ending June 30,</u>	<u>Capital Leases</u>	<u>Operating Leases</u>
1999.....	\$ 16,291	\$ 6,694
2000.....	13,951	6,347
2001.....	10,510	5,853
2002.....	8,933	5,175
2003.....	8,385	4,915
2004 and thereafter.....	26,947	-
Total payments	85,017	\$ 28,984
Less amount representing interest.....	(14,815)	
Present value of minimum lease payments.....	\$ 70,202	

### **Component Units –**

In fiscal 1997, the MBTA entered into several capital lease agreements on heavy rail cars, commuter cars and buses with various companies for varying terms. These leases provided for the Authority to sell and lease back these cars for a period ranging from 8 years to 18 years.

The following is a schedule by years of future minimum lease payments under capital leases together with the present value of net minimum lease payments as of June 30, 1998 (amounts in thousands):

<u>Years Ending June 30,</u>	<u>MBTA</u>	<u>RTAs</u>	<u>Economic Development Authorities</u>
1999.....	\$ 32,849	\$ 731	\$146
2000.....	34,205	731	119
2001.....	34,234	731	20
2002.....	43,825	731	1
2003.....	46,773	731	-
2004 and thereafter.....	769,994	2,924	-
Total payments.....	961,880	6,579	286
Less amount representing interest.....	(432,242)	(1,692)	(23)
Present value of net minimum lease payments	\$529,638	\$4,887	\$263

The MBTA has entered into several sale-leaseback agreements with major financial institutions, covering equipment and rolling stock, which has been accounted for as operating leases. These leases expire through fiscal year 2018. Upon termination, the MBTA may purchase the equipment and rolling stock at prices equal to the lesser of a stated percentage (40%-70%) of the lessor's original purchase price or residual fair market value, as defined.

The MTA has operating leases for administrative office space and automatic toll collection equipment. These operating leases expire on various dates through June 2002. Lease expenses charged to the Massachusetts Turnpike and Sumner-Callahan-Williams Tunnels were \$906,706 of which \$545,478 was paid to the Commonwealth for office space in a state-owned building.

The MTA leases property and air rights to others. The MTA earned \$5,492,896 in rental income. Rental income for the next five years is expected to approximate \$7,000,000 per year based on leases currently in effect.

The Economic Development Authorities and the RTAs have operating leases for office space.

The future minimum rental payments required under operating leases having initial or remaining non-cancelable lease terms in excess of one year are as follows (amounts in thousands):

<u>Years Ending June 30,</u>	<u>MBTA</u>	<u>MTA</u>	<u>RTAs</u>	<u>Economic Development Authorities</u>
1999.....	\$ 12,523	\$ 1,155	\$ 63	\$ 3,530
2000.....	12,909	847	31	3,456
2001.....	13,221	847	-	2,778
2002.....	13,279	847	-	1,718
2003.....	13,649	847	-	1,196
2004 and thereafter.....	123,158	-	-	-
Total payments.....	\$188,739	\$ 4,543	\$ 94	\$ 12,678

## **13. COMMITMENTS**

### **Primary Government –**

**Governmental Funds –** Under Chapters 161A and 161B of the General Laws, the Commonwealth is obligated to provide annual subsidies to the MBTA and certain regional transit authorities for contract assistance, debt service assistance and their net cost of service deficiencies. For fiscal year 1998, these subsidies totaled \$653,459,000 for the MBTA and \$55,574,000 for the RTAs. The net cost of service subsidy is recognized as a current liability of the Commonwealth, but is funded in arrears. At June 30, 1998, the Commonwealth has recorded the unpaid portion as a liability due to the MBTA of \$246,513,000 and due to RTAs of \$61,795,000. The cities and towns served by the MBTA and RTAs will be assessed their proportionate shares of the net cost of service. A receivable from cities and towns of \$230,983,000 is recorded at June 30, 1998 to account for these future reimbursements. The MBTA has also recorded net deferred charges of \$76,053,000 at June 30, 1998, which will be included in the Commonwealth's net

cost of service subsidy in future periods. The Commonwealth has recognized its liability for these future costs in the General Long-term Obligations Account Group.

The Commonwealth is also statutorily obligated to provide contract assistance for debt service obligations to the MCCA, the Government Land Bank and MWPAT. Such assistance totaled \$55,382,000 in fiscal year 1998.

At June 30, 1998, the aggregate outstanding debt for which the Commonwealth is obligated to provide contract assistance support totaled approximately \$3,485,749,000 long-term and \$401,730,000 short-term. In addition, the Commonwealth guarantees the debt of certain local governments and of the building authorities included in the University and College Fund Type. The guaranteed long-term debt outstanding at June 30, 1998 was approximately \$234,069,000.

At June 30, 1998, the Commonwealth had commitments of approximately \$3,215,615,000 for various construction projects. The majority relate to construction funding for a major infrastructure program known as the Central Artery/Tunnel Project, in which continued federal participation is anticipated. The remainder relates to a wide range of building construction projects.

During fiscal year 1998, the Commonwealth received payments from the Massachusetts Turnpike Authority (MTA) and the Massachusetts Port Authority (MassPort) pursuant to two separate memoranda of understandings dated September 12, 1997 and August 13, 1998, respectively. The MTA and MassPort made payments to the Commonwealth to finance a portion of the Central Artery/Tunnel Project in the amount of \$100,000,000 and \$12,115,000, respectively.

The remaining future payments are as follows (amounts in thousands):

<u>Fiscal Year</u>	<u>MTA</u>	<u>MassPort</u>
1999.....	\$600,000	\$30,700
2000.....	-	52,200
2001.....	-	-
2002.....	-	-
2003.....	400,000 *	105,000
2004.....	-	50,000
2005.....	-	50,000
Total.....	<u>\$1,000,000</u>	<u>\$287,900</u>

\* Represents contingent amount subject to certain conditions.

Revenues of \$600,000,000 from the MTA will be recognized in the period when the use of the resources is required or first permitted in fiscal year 1999 and they are therefore available to pay current expenditures. The \$400,000,000 from the MTA was not recognized as revenue, as it is subject to various contingencies.

MassPort payments are treated as an exchange transaction. Revenue will be recognized when payment is received or assets have been transferred. No future payments were recognized in fiscal year 1998.

**Pension Trust Funds** – At June 30, 1998, PRIT had outstanding commitments to invest \$483,733,000 in real estate, and \$829,807,000 in alternative investments.

**University and College Fund Type** - During 1997, Framingham State College received an appropriation of \$6,266,000 by the Commonwealth of Massachusetts for the Commonwealth's share of the cost of a new athletic facility. These funds are being held and controlled by the Division of Capital Planning and Operations (DCPO), and are under its control until costs are incurred. Once the costs of construction need to be paid, the DCPO will pay the contractor on behalf of the College. The total cost of the athletic facility is estimated to be \$12,532,000 and the College is expected to provide a matching amount of \$6,266,000. The College expects to fund its matching portion with the proceeds of bonds issued through the Massachusetts Health and Educational Facilities Authority. Expected commencement date of construction is in March of 1999.

#### **Component Units -**

Chapter 152 of the Acts of 1997 provided for the MCCA to assume the ownership and operation of the Springfield Civic Center (SCC). A total of \$48,500,000 was appropriated for possible expansion and renovation of this facility. The transfer of ownership and operation was effective November 17, 1997.

Chapter 152 of the Acts of 1997 provides \$609,400,000 for the construction of a Convention and Exhibition Center to provide 600,000 square feet of exhibit space at a site in South Boston. The MCCA is to operate the new center, along with the Hynes Convention Center, the Boston Common Garage, and the Springfield Civic Center. The Boston Redevelopment Authority (BRA) is authorized and directed by the legislation to acquire the land, properties, and rights related to the proposed construction site. Once this is accomplished, the MCCA will oversee construction of the new facility. At June 30, 1998, the BRA was still acquiring the properties.



As of June 30, 1998, the MWPAT has agreed to provide loans of \$50,000,000 to various local government units to be funded with grant awards received through June 30, 1998.

Massachusetts Housing Partnership Fund has executed twenty-three loan agreements with seventeen banks for an amount of \$340,827,000 pursuant to the Massachusetts Nationwide Interstate Banking and Community Reinvestment Act and funding commitments outstanding for funds not yet advanced of \$18,900,000 at June 30, 1998.

The MTA entered into construction contracts for the Metropolitan Highway system and the Western Turnpike with various construction and engineering companies. Construction contracts outstanding at December 31, 1997 approximated \$26,000,000. Projected construction expenditures for 1998 approximated \$42,000,000.

The Worcester Regional Transit Authority (WRTA) has executed a cooperation agreement with the Worcester Redevelopment Authority (WRA) for the development of the Union Station site with an intermodal transportation center. The WRTA will fund the costs related to the design and renovation of the Union Station site through federal and state grants. The WRA is the owner and will be the operator of the intermodal transportation center. Once the development of the site is complete, the WRTA will transfer the cost of the project to the WRA.

## 14. CONTINGENCIES

### *Primary Government -*

**Governmental Fund** – The General Fund services claims for all risks of loss for which the Commonwealth is exposed, other than workers' compensation and employee group health and life insurance, which are managed in its Internal Service Funds. A number of lawsuits are pending or threatened against the Commonwealth which arose from the ordinary course of operations. These include claims for property damage and personal injury, breaches of contract, condemnation proceedings and other alleged violations of law. For those cases in which it is probable that a loss will be incurred and the amount of the potential judgment can be reasonably estimated or a settlement or judgment has been reached but not paid, the Attorney General estimates the liability to be approximately \$83,950,000. Of this amount, \$16,500,000 is expected to be paid in the General Fund and \$67,450,000 in the Highway Capital Projects Fund during fiscal year 1999.

The General Fund allocates the cost of providing claims servicing and claims payment by charging a premium to each fund based on claims paid during the year.

The Commonwealth receives significant financial assistance from the federal government. Entitlement to these resources is generally conditional upon compliance with terms and conditions of the grant or reimbursement agreements and with applicable federal regulations, including the expenditure of the resources for eligible purposes. Substantially all federal financial assistance is subject to financial and compliance audits. Any disallowances become liabilities of the fund which received the assistance. As of June 30, 1998, the Commonwealth estimates that liabilities, if any, which may result from such audits are not material.

The Commonwealth's abandoned property law requires deposit of certain unclaimed assets into a managed Fiduciary Fund. These unclaimed assets, less \$4,430,000 which is expected to be reclaimed and paid in fiscal year 1999, are to be remitted to the General Fund each June 30, where it is included as transfers. Amounts remitted during fiscal year 1998 totaled approximately \$75,837,000. Since inception, approximately \$756,893,000 has been remitted. This represents a contingency, because claims for refunds can be made by the owners of the property.

**Internal Service Fund** - It is the policy of the Commonwealth of Massachusetts to manage its risks internally and self-insure for claim settlements for risk of loss relating to workers' compensation and group health insurance in its Internal Service Fund. The Internal Service Fund allocates the cost of providing claims servicing and claims payment by charging a premium to each fund based on actual claims paid during the year. All risk financing liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include amounts for claims that have been incurred but not reported. Claims liabilities are reevaluated periodically to take into consideration recently settled claims, the frequency of claims, and other economic and social factors.

Employees Workers' Compensation and Group Health Insurance costs for Commonwealth employees are recognized when losses are incurred. The Commonwealth's outstanding liability for such losses at June 30, 1998, including claims incurred but not reported, is estimated to be \$315,867,000.

The Commonwealth has assumed responsibility for worker's compensation claims for all contractors and

subcontractors working on the Central Artery/Tunnel project. The Commonwealth's liability as of June 30, 1998 for such claims, including incurred but not reported claims, is estimated to be \$99,595,000. The Commonwealth has restricted assets set aside to pay for these liabilities.

Changes in the balance of claims and judgments liabilities for the primary government during fiscal 1998 were as follows (amounts in thousands):

	1997	1998
Liability, beginning of year.....	\$ 565,820	\$ 602,181
Current year claims		
and changes in estimates.....	864,442	806,864
Claims payments.....	(828,081)	(833,580)
Liability, end of year.....	<u>\$ 602,181</u>	<u>\$ 575,465</u>

**Component Units** - The Massachusetts Bay Transportation Authority reserves self-insurance liabilities as claims and judgements as of June 30, 1998. Changes in the self-insurance reserves in fiscal 1998 were as follows (amounts in thousands):

	1997	1998
Liability, beginning of year.....	\$ 64,155	\$69,732
Current year claims		
and changes in estimates.....	17,179	71,127
Claims payments.....	(11,602)	(71,039)
Liability, end of year.....	<u>\$ 69,732</u>	<u>\$ 69,820</u>

The Massachusetts Turnpike Authority has obtained health coverage for most employees through various commercial health maintenance organizations. The health coverage for certain other employees, as well as coverage for job-related injuries to all employees, is self-insured by the Authority, with risks managed internally. At December 31, 1997, the accrual for outstanding claims under these programs, including claims incurred but not reported, was approximately \$15,000,000.

## 15. DISCONTINUED OPERATIONS

Effective March 31, 1998, as enacted by Chapter 163 of the legislative acts of the Commonwealth, the Clinical Services Division of the University and substantially all of the Subsidiaries of the UMass Health System were contributed to and merged with and into a Massachusetts not-for-profit corporation named UMass Memorial Health Care, Inc. (UMass Memorial). The Commonwealth has accounted for this transaction as a discontinued operation

for the nine months ended March 31, 1998. The excess of expenses over revenues after transfers was approximately \$11,000,000. Effective March 31, 1998, the net assets transferred to UMass Memorial were \$70,700,000.

In connection with this merger, the University of Massachusetts and UMass Memorial have entered into the following agreements:

UMass Memorial is granted the right to occupy portions of the UMass campus for a period of 99 years and UMass Memorial agrees to share responsibility for various capital and operating expenses relating to the occupied premises. UMass Memorial also agreed to make up to \$5,000,000 in capital improvements to shared facilities over the next five years.

UMass Memorial agrees to make certain payments to UMass and its related organizations, including: 1) an annual fee of \$12,000,000 (plus an inflation adjustment), for 99 years as long as UMass continues to operate a medical school; 2) a percent of net operating income of UMass Memorial based upon an agreed-upon formula; and 3) a \$30,000,000 contribution plus interest by UMass Memorial to jointly fund and develop a new research facility with UMass. UMass will own and control the research facility.

UMass will lease certain employees to UMass Memorial or its affiliates during a transition period ending 2008.

All academic funds (net assets) held by the Capital division as of March 31, 1998 ("Departmental Education Funds") will remain assets of UMass and will be held by UMass Memorial for UMass and allocated to each academic department. The cash will be transferred by UMass Memorial to UMass over five years. At June 30, 1998, UMass has recorded a receivable from UMass Memorial in the amount of \$22,200,000 related to these funds.

UMass is reimbursed by, and reimburses, UMass Memorial for certain services provided and purchased. For the three months ended June 30, 1998, the revenues for services provided to UMass Memorial were \$79,000,000. At June 30, 1998, UMass has recorded a receivable in the amount of \$143,900,000 from UMass Memorial for costs related to shared services, leased employees, and other agreed-upon payments due to UMass. UMass has recorded a payable at June 30, 1998 of \$17,500,000 for amounts due to UMass Memorial for shared services and other agreed-upon payments due to UMass Memorial.

## 16. SUBSEQUENT EVENTS

### *Primary Government -*

Section 11 of Chapter 300 of the Acts of 1998 amended Section 1 of Chapter 48 of the Acts of 1997 relative to the abolition of certain counties. The act calls for the transfer of all functions, assets, debts and obligations of the county to the Commonwealth on the transfer date. The counties of Worcester and Hampden have been transferred as of July 1, 1998 (Fiscal Year 1999), the county of Hampshire will be transferred on January 1, 1999 (Fiscal Year 1999); the county of Essex will be transferred July 1, 1999 (Fiscal Year 2000); and the county of Berkshire will be transferred on July 1, 2000 (Fiscal Year 2001). The transfer date can be earlier if a county has failed to make a required payment on an outstanding bond or note.

The Commonwealth will include in its audited financial statements the financial activity of an abolished county in the fiscal year the actual transfer occurs.

### *Component Units -*

During July 1998, the MWPAT raised \$125,000,000 through the issuance of tax-exempt Water Pollution Abatement Revenue Bonds of which a portion was used to refinance \$50,000,000 in interim loans issued to the MWRA. These loans were issued during fiscal year 1998 and were outstanding as of June 30, 1998. The bond transaction closed on July 9, 1998. The bonds carry interest rates ranging from 4.0%-5.4% and mature between fiscal years 2000 and 2019.

The MWPAT received notification of approval from the Environmental Protection Agency for the remaining project portion of its 1997 Safe Drinking Water State Revolving Fund capitalization grant. This grant of \$10,902,000 is required to be matched by \$2,869,000 of state funds. These state match funds were appropriated by the state legislature during fiscal year 1998. Under the Trust's current funding formula, the capitalization will allow funding of \$27,542,000 in leveraged loans.

## 17. YEAR 2000 READINESS (UNAUDITED)

The year 2000 issue arises because most computer software programs allocate two digits to the year date field on the assumption that the first two digits will be 19. Without reprogramming, such programs will interpret, for example, the year 2000 as the year 1900. Also, some programs may be unable to recognize that the year 2000 is a leap year.

The year 2000 issue may affect electronic equipment containing computer chips that have date recognition features – such as environmental systems, elevators, and vehicles – as well as computer software programs. In addition, the year 2000 issue affects not only computer applications and equipment under the Commonwealth's direct control but also the systems of other entities with which the Commonwealth transacts business. Some of the Commonwealth's systems/equipment affected by the year 2000 issue are critical to the continued and uninterrupted operations of Commonwealth government.

Because of the unprecedented nature of the year 2000 issue, its effects and the success of the related remediation efforts will not be fully determinable until the year 2000 and thereafter. Management cannot guarantee that the Commonwealth is or will be year 2000 ready, that the Commonwealth's remediation efforts will be successful in whole or in part, or that parties with whom the Commonwealth does business will be year 2000 ready.

In June 1997, the Executive Office for Administration and Finance established a Year 2000 Program Management Office within its Information Technology Division. The purpose of this office is to ensure accurate monitoring of the Commonwealth's progress in achieving "year 2000 compliance". The program office has asked agencies to identify "mission critical" and "essential" systems. Mission critical systems are those which directly affect the health, safety or livelihood of citizens, which directly affect state revenues or whose loss would severely jeopardize agency delivery of services. Essential systems' loss would cause disruption of some agency services but would not prevent the agency from delivering primary services.

Legislation approved by the Acting Governor on August 10, 1998 appropriates \$20,400,000 for expenditure by the Information Technology Division to achieve year 2000 compliance for six Executive Offices and the other departments that report directly to the Governor. Of this \$20,400,000, approximately \$4,100,000 is committed for contracts. This amount, together with previously appropriated amounts and expenditures at the departmental level from existing funds, is anticipated by management to be sufficient to meet most of the remediation efforts for such Executive Offices and departments. The Secretary of Administration and Finance is to report quarterly to the Legislature on the progress being made to address the year 2000 compliance efforts, and to assess the sufficiency of funding levels.

At any given time, work to address the year 2000 issue with respect to each system deemed mission-critical (i.e., critical to conducting the Commonwealth's operations) falls predominantly within one of the following stages of work:

- i. *Awareness stage* – *Establishing* a budget and project plan for dealing with the year 2000 issue.
- ii. *Assessment stage* – *Identifying* the systems and components for which year 2000 work is needed.
- iii. *Remediation stage* – *Making* changes to systems/equipments.
- iv. *Validation/Testing stage* – *Validating* and testing changes that were made during the remediation stage.

The following paragraphs summarize year 2000 state-of-work data for the 220 mission critical systems/equipment of the primary government, which includes higher education, as of June 30, 1998. Additional information as to the year 2000 issue related to the component units can be obtained in the complete financial statements of the individual component units. Systems having similar functions that are in the same stage of work have been combined for purposes of this disclosure.

The Commonwealth had completed the awareness stage and the assessment stage as of June 30, 1998, for all mission-critical systems and was performing remediation work for mission-critical systems and equipment relating to the following:

**Primary Government:**

Highway Department:

Other Mission Critical Devices

Highway Traffic Signals

Merit Rating Board:

Driver's Citation System

Inquiry (Access to Driver & Citation Database)

Statewide Emergency Telecommunications Board:

911 - Address Information

911 -Actual Network

911 Customer Premise Equipment

Division of Employment & Training:

Department of Employment and Training

Career Correspondence System

Human Resource Records System

ARTB – Accounts Receivable

Trial Balances Revenue System

Unemployment Insurance System

Integrated Appeals System

Division of Human Resources:

Human Resource Records System

Parole Board:

Parole Board Records

Parole Board Inmate & Hearing Tracking System

Parole Board Victim Witness Tracking System

Parole Board Management System

Department of Public Health:

Public Health Records System

Department of Public Health Various Lab Systems

Department of Transitional Assistance:

Welfare Payment and Reimbursement System

Data Insertion Mail System

Welfare Financial Management System

Food Stamp Program

Data Exchange Systems

Housing Payment System

BEACON – Financial & Categorical

Eligibility Systems

Department of Environmental Protection:

Environmental Data System

Environmental Systems Monitoring Air and Water Quality

DAS-Data Acquisition System for Air Quality

Department of Revenue:

Local Service Database System

Wage Reporting System

MASSTax – Revenue System

Soldiers Home-Holyoke:

Holyoke In-Patient Tracking System

Department of Fire Services:

Fire Incident Reporting System

State Police Department:

State Police Fingerprinting System

Communications Equipment (non-IT)

Labor Relations Commission:

Labor Case Tracking System

Administrative Office of the Trial Courts:

Judiciary Court Activities Information System

Jury Selection System

Board of Bar Examiners:

Forecourt – Case Management & Court Operations

Supreme Judicial Court:

Forecourt – Case Management & Court Operations

Department of Youth Services:

State's Juvenile Justice Department System

## Department of Environmental Management:

Campground Reservations

## Department of Food &amp; Agriculture:

Non-IT: Lab Equipment

## Division of Fisheries, Wildlife, &amp; Environmental Law Enforcement:

Marine Catch Report Database

## Executive Office of Environmental Affairs:

VAX Applications

## Metropolitan District Commission:

Traffic, Security, Climate Systems

## Division of Insurance:

Licensing System for Division of Insurance

## Secretary of State-Voter Registration:

Voter Registration System

## Treasurer &amp; Receiver General:

Abandoned Property System

Warrant Payment System

## Bureau of State Office Buildings:

State House Security System

## Division of Health Care Finance:

ACE Nursing Home Financial Database Systems

## Information Technology Division:

PMIS (for HRD, OSC) – Payroll System

MMARS (see Office of the Comptroller)

CAPS Payroll System

PCRS Labor Distribution System

## Division of Medical Assistance:

Recipient Eligibility Verification System

Medicaid Claims System

## Board of Registration in Medicine:

Licensing System for Medical Registrations  
(Includes MMIS & FAIS)

## Division of Banks:

Examination Application for DOB

## Military Division – State:

Municipal Network Information System

Warrant Payment System

## Massachusetts Office on Disability:

CATS

## Criminal History Systems Board:

Criminal Offender Record Information System

## Office of State Comptroller:

MMARS State Financial Accounting System

**Higher Education**

## Springfield Technical Community College:

Student Enrollment

## UMass – Boston:

Student Information

Human Resource

## UMass – President's Office:

Student Administration

Student Billing

## Bunker Hill Community College:

Human Resources system

## Greenfield Community College:

Payroll system

## UMass – Worcester (Medical School):

SAMIS – Student Administration Management  
Information System

## Salem State College:

Integrated Student

## Roxbury Community College:

Kenric Financial Package

## Cape Cod Community College:

Student Information

Financial System

## Quinsigamond Community College:

CARS Student Record System

## Salem State College:

Student Accounts

For the systems/equipment listed above, the validation/testing stage has not yet been addressed.

The Commonwealth has completed the awareness, assessment, and remediation stages and was performing, or had completed, validation/testing work as of June 30, 1998, for mission-critical systems and equipment relating to the following:

**Primary Government:**

## Bureau of Special Investigations:

Case Tracking System

## Chief Medical Examiner:

Inquest System

## Criminal History Systems Board:

Law Enforcement Agencies Processing System

## Department of Correction:

Inmate Database

## Department of Fire Services:

Underground Storage Tank System

## Merit Rating Board:

Insurance Claim Tracking System

## Registry of Motor Vehicles:

Batch Numbering - Document

Control for F/M

Controls License Issuance System

Registration Systems - Controls Vehicle

Registrations

## State Police:

POS - Police Op. System to Control Police

Dispatching

## Statewide Emergency Telecommunications Board:

SRC System Maintenance &amp; Monitor

## Division of Apprenticeship:

Apprenticeship Tracking System

## Division of Employment &amp; Training:

Unemployment Insurance System

## Administrative Office of the Trial Courts:

Probation Receipt Accounting System

Warrant Management System

## Appeals Court:

COTT/ Forecourt - Case Management &amp; Court

Operations System

## Campaign &amp; Political Finance:

Name &amp; Address Database

## Committee for Public Counsel:

Billing for Public Defenders

## Finegold Library:

CARL - Colorado Alliance

Research Library Catalog System

## Lottery Commission:

Zeke Scheduling

Financial Systems

On-line Games

## Department of Mental Health:

Hospital Billing System

## Department of Mental Retardation:

Client Tracking System

## Department of Public Health:

AIMS - Hospital Admissions &amp; Billing

Children's Medical Services Program -Insurance

Substance Abuse Management Information System

Early Intervention

Immunization Information System

Pharmacy

## Department of Social Services:

ASSIST/FamilyNet -Child Protection System

FamilyNet

## Department of Transitional Assistance:

CARS/BEACON ESP/BEACON

PACES Financial Eligibility System

EBT -Electronic Benefits Transfer

PACES Online Inquiry Screens

## Division of Health Care Finance:

Uncompensated Care Reporting System

## Division of Medical Assistance:

MA21 Recipient Information System

## Massachusetts Rehabilitation Commission:

Client Tracking System

## Office of Child Care Services:

Complaint Tracking System

Day Care Licensing System

Teacher Quality System

## Soldiers Home-Chelsea:

Patient Tracking System

Patient Banking System

## Soldiers Home-Holyoke:

Patient Medical Records System

## Legislature DP:

Legislative Bill Tracking System

## Department of Environmental Management:

Harvesters System

Revenue System

Seasonal Employees Roster

Well Drillers Roster

## Division of Fisheries, Wildlife, &amp;

## Environmental Law Enforcement:

Agent Activity Database

Titling &amp; Registration Database

## Executive Office of Elder Affairs:

Home Care Management Information System

## Office of Travel &amp; Tourism:

Getaway Guide Database

## Alcohol Beverage Control Commission:

Licensing System

## Department of Telecommunications &amp; Energy:

Complaint Tracking for Cable TV

## Division of Banks:

Complaint Tracking System

Licensing System

## Division of Registration:

Licensing System

## Division of Standards:

Licensing System

## Secretary of State-Other:

Corporations Database System

Record Center Database System

Treasurer & Receiver General:  
 Cash Management System  
 Bonds Management System  
 Payroll System for Legislature  
 Corporate Universe Debt Management System  
 Payment Processing System  
 Victims of Violent Crime  
 Appellate Tax Board:  
 Case Management System  
 Budget Bureau:  
 FoxPro, Database System  
 MMARS Interface Subsystem  
 Bureau of State Office Buildings:  
 Non-IT: State Office Buildings  
 Capital Planning & Operations:  
 Non-IT: State Office Buildings  
 Commission Against Discrimination:  
 Complaint Tracking System  
 Department of Revenue:  
 Child Support Enforcement System  
 Department of Veterans Services:  
 Veterans Services Management Information System  
 Division of Human Resources:  
 Workers' Compensation System  
 Group Insurance Commission:  
 GIC Insurance Benefits Database  
 Information Technology Division:  
 UHI Employer-Paid Health Insurance System  
 Operational Services Division:  
 Purchase Orders to Office Supply and MIS  
 Vendors  
 COMPASS – Solicitation Advertising System  
 Public Employees Retirement Board:  
 Disability Determination System  
 Disability Tracking System  
 Retirement Verification Calculation System  
 State Ethics Commission:  
 Case Tracking System  
 Department of Housing & Communities Development:  
 Housing Authority PV Tracking

### **Higher Education**

Bridgewater State College:  
 Financial System  
 Human Resource System  
 Student Information System  
 Bristol Community College:  
 Financial System  
 Student Information System

Bunker Hill Community College:  
 Student Administration/Colleague System  
 Cape Cod Community College:  
 Human Resource System  
 Fitchburg State College:  
 Student Records System Financial System  
 Framingham State College:  
 Fully Integrated System  
 Student Administration  
 Scheduling System  
 Greenfield Community College:  
 Banner-Alumnae  
 Banner-Financial  
 Banner-Student Information  
 Holyoke Community College:  
 Energy Management  
 Financial System  
 Human Resource System  
 Student Information System  
 Mass Bay Community College:  
 Financial Aid System  
 Financial System  
 Human Resource System  
 Student Information System  
 Massachusetts College of Art:  
 Colleague System  
 Massachusetts College of Liberal Arts: (North Adams)  
 Accounting System  
 Student Information System  
 Massachusetts Maritime Academy:  
 Financial Services Colleague System  
 Massosioit Community College:  
 APECS-Student Information System  
 Great Plains  
 Middlesex Community College:  
 Student Information System  
 Banner  
 Human Resources System  
 Mount. Wachusett Community College:  
 Banner  
 North Shore Community College:  
 Human Resource Banner  
 Northern Essex Community College:  
 Banner Student IS/Banner  
 Quinsigamond Community College:  
 BPI Accounting  
 Financial Management System  
 Roxbury Community College:  
 Student Data

## Salem State College:

Fiscal System

## UMass - Boston:

Financial System

## UMass - Dartmouth:

Accounts Payable

HRMIS (Personnel &amp; Payroll)

Student Information

## UMass - Lowell:

Financial System

Student Information System

## UMass – President’s Office:

Accounting

Payroll Systems

## Westfield State College:

Financial Record System

Student Record System

## Worcester State College:

Colleague System

## Berkshire Community College:

Student Billing and Administration